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ABSTRACT

The conclusions of the U.S. General Accounting Office (GAO) concerning the effects of consolidating federal categorical aid programs into block grant programs are presented in this report. The block grants reviewed were established before 1981 under the Partnership for Health Act, the Omnibus Crime Control and Safe Streets Act, the Comprehensive Employment and Training Act, the Community Development Block Grant program, and Title XX of the Social Security Act. The GAO found that accountability requirements and local autonomy under the grants varied but that the requirements tended to increase in number and complexity over time. Groups targeted for assistance under the earlier categorical programs tended to received comparable assistance under the block grants. Consolidation had mixed effects on administrative costs but further reductions in federal requirements could result in economy. Less program evaluation material has been available to Congress than under categorical programs, largely because many programs were made accountable at the state rather than the federal level. The GAO notes that these findings may not apply to newer block grant programs because of substantial changes in program structures and intentions. The reactions of other government agencies to the GAO conclusions are also provided. (PGD)

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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Chairman Of The Subcommittee On Oversight Of The Committee On Ways And Means United States House Of Representatives

Lessons Learned From Past Block Grants: Implications For Congressional Oversight

Block grant programs enacted before 1981 have successfully targeted services to people designated as economically disadvantaged. The Congress may never know whether the new block grants enacted under the Omnibus Budget Reconciliation Act of 1981 are similarly successful in social targeting--or in other objectives--because the Federal Government is not requiring uniform data collection.

GAO found no evidence from the early block grants of administrative savings that would offset budget cuts of greater than 10 percent in programmatic activities. Although the past is always an uncertain predictor of the future, this experience raises questions about the amount of cost savings that will emerge under the block grants created in 1981.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INSTITUTE FOR PROGRAM
EVALUATION

B-203641

The Honorable Charles B. Rangel
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

As you requested in your April 2, 1981, letter, we have reviewed previous experience with block grants and have analyzed the requirements for their effective evaluation. This report outlines four issues raised by consolidating categorical programs into block grants and discusses the early and 1981 block grants in light of each issue.

As arranged with your office, we are sending copies of the report to the Office of Management and Budget and to the U.S. Departments of Health and Human Services, Housing and Urban Development, Education, Labor, and Justice.

Sincerely yours,

Eleanor Chelimsky
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

LESSONS LEARNED FROM PAST BLOCK GRANTS: IMPLICATIONS FOR CONGRESSIONAL OVERSIGHT

D I G E S T

Block grants provide funds, usually to general purpose governmental units, as specified by statutory formula, for use in broad functional areas. The grantees are allowed considerable discretion in identifying problems, designing programs, and allocating resources. The five block grants established before 1981 are

--Partnership for Health Act (PHA),

--Omnibus Crime Control and Safe Streets Act (LEAA, for the Law Enforcement Assistance Administration, the agency created to administer this legislation),

--Comprehensive Employment and Training Act (CETA),

--Community Development Block Grants (CDBG),

--Title XX Social Services. (pp. 1-3)

Experience under the five pre-1981 block grants raises questions about the stability of the block grant as a funding mechanism. Of these five grants, LEAA has been abolished, PHA was merged into a large new block grant, Title XX became the major component of the Social Services block grant, CETA has been threatened with replacement, and only the entitlement cities portion of CDBG continues intact. (p. 9)

HOW HAVE BLOCK GRANTS ATTEMPTED TO BALANCE COMPETING GOALS OF FLEXIBILITY AND ACCOUNTABILITY?

In the pre-1981 block grants, grantees' accountability for Federal dollars was insured by planning, spending, recordkeeping and reporting, and auditing requirements, as specified in the legislative provisions and regulations. However, the amount of flexibility grantees had under the earlier grants differed from block to block. GAO's review finds that these four types of requirement increased in number and complexity over time. PHA and Title XX were

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exceptions because their planning and spending requirements remained stable or were reduced. (pp. 16-27)

The block grants enacted in the Omnibus Budget Reconciliation Act of 1981 differ from the earlier grants by imposing certain generic categories of accountability requirements more consistently. The new grants are more detailed in their reporting and auditing provisions but have fewer kinds of planning and spending restriction than the earlier block grants. They also greatly limit the roles Federal agencies play in program operations. (pp. 27-31)

HAVE THE POOR AND OTHER DISADVANTAGED GROUPS BEEN SERVED EQUALLY UNDER BLOCK GRANTS AND CATEGORICAL PROGRAMS?

Of the original block grants, CDBG, CETA, and Title XX had objectives of serving the economically needy. GAO's review of them suggests they did in fact target services to their designated groups.

For CDBG and CETA, there were no consistent differences between the earlier categorical programs and the pre-1981 block grants in targeting benefits to lower income people or to minority groups.

--CETA was overall slightly less targeted to the economically needy under the block grant, but the differences are small and on some characteristics the block grant is more targeted than the categorical programs. (p. 37)

--CDBG shows somewhat more targeting to low and moderate income recipients than the categorical programs, but these findings are limited to rehabilitation aid in only seven cities. (pp. 40-41)

--There is no evidence that targeting to the poor declined over time for CDBG or CETA. (pp. 37-38 and 41-43)

Satellite cities and cities with fewer urban problems achieved less targeting of CDBG funds than other, more needy cities. GAO finds that at least in the case of CDBG, the absence of targeting in the allocation formula can impair targeting under block grants. (pp. 44-46)

HAVE THERE BEEN SAVINGS IN ADMINISTRATIVE COSTS UNDER BLOCK GRANTS?

In this review, GAO identified no conclusive pattern to the effects of the pre-1981 block grants on the administrative costs of State and local grantees. In the debate on the 1981 block grants, the Administration asserted that administrative cost savings would offset Federal reductions of more than 20 percent in spending. Although the past experience with block grants provides no data to support this claim, reductions in Federal requirements that might decrease costs may result in economies not seen previously. Generally, GAO finds that

--consolidating the categorical programs into CDBG, CETA, and PHA had mixed effects on administrative costs (pp. 54-55) and

--the costs of administering three of the five original block grants were within the range of the costs of administering categorical grants generally. (pp. 55-59)

WHAT EVALUATIVE INFORMATION HAS BEEN AVAILABLE TO THE CONGRESS UNDER BLOCK GRANTS?

Examining the extent and nature of Federal evaluation under the five original block grants, GAO finds that the Congress had the most extensive and most usable evaluation information from CETA and CDBG. LEAA and Title XX undertook few studies that would have given the Congress a picture of progress or effects across all the States. PHA had essentially no evaluation activity at the national level. (pp. 66-67)

One explanation for the variation in Federal evaluation activities among the five pre-1981 block grants is that agencies' views of accountability differed under the block grant mechanism. For example, experience under PHA illustrates how a limited accountability function can lead to an inability to track funds and a generally diminished evaluation capability. (pp. 70-71)

The 1981 block grants give a less explicit role for program evaluation to the administering Federal agencies and a greater role to the States. This suggests that in the future the scope and

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manner of State evaluation activities will differ from State to State. (pp. 71-73)

FURTHER OBSERVATIONS

Among the important considerations in predicting block grant outcomes, two stand out. First, the five programs constitute all the past block grants but provide only a tenuous basis for drawing firm conclusions about the block grant as a funding mechanism. Second, conditions in the 1980's are substantially different from what they were in the 1970's, and this could affect outcomes given that the 1981 block grants were intended to delegate substantially greater responsibilities to the States. (pp. 9-12)

Current Administration policy is to leave the form and content of annual reports under the 1981 block grants to grantees' discretion. However, this may mean that data may not be available if there is future congressional interest in assessing the use of block grant funds as a way of achieving targeting goals or other national objectives. An adequate reporting capability involves insuring that at least some information can be collected uniformly across all States to produce comparable data. Although some efforts are under way in some States to establish common reporting systems, the outcome is uncertain. (pp. 31-32, 51, and 72-73)

Moreover, GAO finds that the fears that block grants would provide fewer services to the disadvantaged than categorical programs--and that, consequently, these services would deteriorate over time--were not realized under the original block grants. This suggests that, depending on how specific requirements are implemented administratively, block grants may be more compatible with the goals of social accountability than has been assumed. Targeting can provide for who a grant is to serve while leaving to State or local authorities the decisions about what activities or services the grant is to offer.

Finally, the lack of any consistency in earlier findings of differences in administrative costs between block grants and the categorical programs suggests that the cost savings that resulted from administering block grants would not, by themselves, have offset budget cuts of greater than 10 percent in programmatic activities.

However, the newer block grants, accompanied by changes in Federal requirements that might decrease costs, may result in economies not previously experienced. (pp. 64-65)

THE CONGRESSIONAL REQUEST, THE AGENCIES' COMMENTS, AND GAO'S RESPONSE

GAO undertook this examination of experience under the block grants enacted by previous sessions of the Congress at the request of the Subcommittee on Oversight of the House Committee on Ways and Means. GAO reviewed and compared the legislative provisions for the original and the 1981 block grants. GAO's findings are based additionally on a synthesis of evaluation studies relevant to questions of targeting and administrative costs. (pp. 12-13)

The Office of Management and Budget (OMB) and the U.S. Departments of Education, Health and Human Services, Justice, and Labor commented on a draft of this report. The U.S. Department of Housing and Urban Development did not offer a written response within the period specified in Public Law 96-226. The agencies that did respond characterized the report as an informative and accurate description of experience under the five early block grants. (pp. 105-21)

OMB maintains that GAO's findings and conclusions as based upon past block grants are in many respects not relevant to the block grants enacted in 1981. The new block grants, OMB argues, shift program accountability to the States, making the States "accountable to their own citizens, rather than to Federal officials." GAO's analysis of requirements under the Omnibus Budget Reconciliation Act of 1981 demonstrates that the legislation provides the Federal Government a role in oversight rather than virtually abolishing that role in the way that OMB suggests. Monitoring the expenditure of block grant funds to achieve stated national objectives--a theme throughout this report--has been and is a central Federal accountability function under past and present block grant legislation. (pp. 105-06)

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ABBREVIATIONS

ACIR	Advisory Commission on Intergovernmental Relations
AFDC	Aid to Families with Dependent Children
CDBG	Community Development Block Grant
CETA	Comprehensive Employment and Training Act

(Abbreviations continued)

CLMS	Continuous Longitudinal Manpower Survey
DOC	U.S. Department of Commerce
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
GAO	U.S. General Accounting Office
GRS	General Revenue Sharing
GSA	U.S. General Services Administration
HEW	U.S. Department of Health, Education, and Welfare
HHS	U.S. Department of Health and Human Services
HUD	U.S. Department of Housing and Urban Development
LEAA	Law Enforcement Assistance Administration
NAHRO	National Association of Housing and Redevelopment Officials
NAS	National Academy of Sciences
NCEP	National Commission for Employment Policy
NCMP	National Commission for Manpower Policy
NPHPRS	National Public Health Program Reporting System
NSF	National Science Foundation
OMB	U.S. Office of Management and Budget
PHA	Partnership for Health Act
Pub. L. No.	Public law number
SSI	Supplementary Security Income
SSRR	Social Services Reporting Requirements
Title XX	Title XX of the Social Security Act
Treasury	U.S. Department of the Treasury

CHAPTER 1

INTRODUCTION

The Omnibus Budget Reconciliation Act of 1981 created nine new block grants from the consolidation of more than 50 categorical grants and two already existing block grants. Up until 1981, the only block grants in existence were

--Partnership for Health Act (PHA),

--Omnibus Crime Control and Safe Streets Act (referred to as LEAA, for Law Enforcement Assistance Administration, the agency created to administer the legislation),

--Comprehensive Employment and Training Act (CETA),

--Community Development Block Grants (CDBG), and

--Title XX Social Services.

The 1981 legislation and proposals for 1982 have heightened the interest of the Congress and others in whether experience under the older block grants can prove useful in the congressional oversight of the newly established programs.

The Chairman of the Subcommittee on Oversight of the House Committee on Ways and Means asked us to review the five block grants listed above and identify information that might be helpful in evaluating current programs. While the objective traditionally associated with block grants is to fund broadly defined functional areas with the greatest flexibility for grantees and the fewest Federal requirements, a review of these five block grants shows some diversity among them with regard to what attaining this objective means in practice.

The Chairman asked us to examine the legislation and evaluations related to the older block grants to see if experience can help inform the current debate. We were asked to answer questions related to four issues. The first issue is whether the range and type of informational and accountability requirements imposed under each of the block grants have been adequate. The second issue is whether the poor and other disadvantaged groups have received their share of services under block grants compared to categorical grants. Under the third issue, we examine how administrative costs differ under block grants and categoricals. The fourth issue concerns the Federal evaluation activities--evaluation being one mechanism for achieving accountability--that were implemented for the five programs.

WHAT IS A BLOCK GRANT?

Block grants are often contrasted with two other funding mechanisms: categorical grants and general revenue sharing. The

differences among the three are sometimes clearer in the abstract than in the implementation. For the purposes of definition, however, we can place block grants somewhere between categorical grants and general revenue sharing by the scope of restrictions or conditions they impose on grant recipients. At the one extreme, categorical grants provide funding for specialized purposes and narrowly defined activities. Typically, the Federal role in administering them is active and includes specifying application requirements, negotiating awards, monitoring the progress of the funded activities, and evaluating effects. At the other extreme, general revenue sharing provides funds to local governments for almost any use, including initiating new programs, stabilizing local taxes, and generally supporting government programs. In addition, the Federal Government imposes almost no conditions on the recipients beyond requirements to hold proposed-use hearings, conduct audits, and comply with civil rights requirements. Block grants have comparatively fewer constraints than categorical grants, but they give recipients narrower latitude than general revenue sharing. Overall, however, block grants give recipients wide latitude in making administrative arrangements and in choosing services within a functional area.

Five features distinguish block grants from other forms of assistance.

1. Federal aid is authorized for a wide range of activities within a broadly defined functional area.

2. Grantees are allowed considerable discretion in identifying problems, designing programs, and allocating resources.

3. Federally imposed administrative, fiscal reporting, planning, and other requirements are kept to the minimum necessary to insure that national goals are accomplished.

4. The amount of Federal aid a grantee receives is calculated from a statutory formula rather than being the decision of Federal administrators.

5. The initial recipient of block grant funds is usually a general purpose governmental unit, such as a city or State. (ACIR, 1977a, p. 6)*

In practice, it may be difficult to classify a program as either a block or a categorical grant, and the problem is compounded by some misconceptions. Block grants are often accompanied by grant program consolidation and, recently, they have been accompanied by reductions in appropriations. Although both

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*Notes to chapters are in appendix IV; interlinear bibliographic citations are given in full in the bibliography in appendix V.

consolidation and budget reduction have occurred in the block grants created by the Omnibus Budget Reconciliation Act of 1981, neither is a defining characteristic of block grants. Grant consolidations can combine administrative functions to reduce the number of separate programs and give recipients more discretion than they previously enjoyed. The same features that usually accompany a discretionary grant program--application requirements, competitive selection of grantees, little discretion for recipients in the program design--usually remain under simple consolidations. In contrast, block grants redistribute power and authority and may or may not be accompanied by a reduction in the number of Federal programs.

Similarly, block grants can have higher or lower appropriations than their predecessor categorical programs. While the block grants enacted in 1981 typically had appropriations cuts of the order of 25 percent, most of the earlier block grants were enacted with increased appropriations. The term "block grant" refers to the manner in which power and decisionmaking are distributed, not to the dollar resources that are made available.

GENERAL DESCRIPTIONS OF THE FIVE BLOCK GRANTS

The five block grant programs that were in existence long enough to provide experience useful to current congressional needs are listed in table 1 on the next page. The oldest, PHA, was established 16 years ago in 1966. The most recent, Title XX Social Services, was established in 1975. Four Federal agencies administered the five programs. Outlays in fiscal year 1981 ranged from a low of $23 million for PHA to a high of $4 billion for CDBG. In the following short histories, we describe the establishment and subsequent evolution of each of the five programs.

Partnership for Health Act

The Partnership for Health Act of 1966 (Public Law 89-749) was originally designed to reorganize Federal categorical health programs by consolidating nine grant programs into one. The first Hoover Commission had urged health program consolidation in the 1940's, and subsequent commissions in intergovernmental relations and health services also supported it. President Lyndon Johnson criticized the proliferation of individual categorical grants as rigid, inefficient, and unable to meet the Nation's health needs. Early in 1966, he submitted a sweeping legislative program for public health that included a block grant for health services.

Although the States used PHA funds to support mental health, general health, tuberculosis control, and other public health activities, the breadth and goals of PHA coverage were never realized. PHA outlays dropped from $90 million in fiscal year

Table 1

The Structural and Fiscal Characteristics of the Five Original Block Grants

Program and year enacted	Federal agency	Services provided	Categorical programs consolidated	Outlays $ million FY 1981	Distribution formula	Primary recipient
Partnership for Health (PHA), 1966	HHS	Public health	9	23	Population, financial need	States
Omnibus Crime Control and Safe Streets (LEAA), 1968	LEAA	Law enforcement, criminal justice	0	316	Population	States
Comprehensive Employment and Training (CETA), 1973	DOL	Manpower	17	2,231	Unemployment, previous year funding level, low income	General purpose local and States
Community Development Block Grants (CDBG), 1974	HUD	Community and economic development	6	4,042	Population, overcrowded and old housing, poverty, population growth lag	General purpose local
Title XX Social Services, 1975	HHS	Social	2	2,646	Population	States

Source: ACIR, Block Grants: A Comparative Analysis (Washington, D.C.: 1977), p. 7, and The Partnership for Health Act: Lessons from a Pioneering Block Grant (Washington, D.C.: 1977), p. 10. FY 1981 outlays from OMB, Budget of the Government of the United States, 1983. Special Analysis H (Washington, D.C.: 1982), p. 21; figures exclude categorical components of CDBG, CETA, and LEAA. See also 88 Stat. 2337.

1972 to $23 million in fiscal year 1981. (OMB, 1982, p. 21) The reasons for PHA's decline are several. The legislative and executive branches disagreed over the extent of Federal requirements and oversight for the program. Was the grant to support any public health activity that a State or a local government undertook, or was it to further national public health needs, and where should the line between the two be drawn? (ACIR, 1977a, p. 17)

Moreover, in the early years of PHA, the States resisted the attempts of Federal officials to intervene in grant activities in response to congressional concerns about the program. Almost all the early disputes were resolved in favor of the States. By 1972, the U.S. Department of Health, Education, and Welfare (HEW, now HHS) decided to eliminate the requirements for the submission of State plans. The regulations were changed to require only State assurances that a detailed plan had been prepared and met all applicable Federal requirements. (ACIR, 1977c, pp. 32, 37) The pertinent congressional committees favored greater controls; that these controls were not accepted strengthened congressional preference for enacting new categorical health grants. The Advisory Commission on Intergovernmental Relations concluded that

> "In summary, the failure to achieve an effective operational balance between the concerns of the states and those of the federal government ultimately produced a program with meager funding, only a few really powerful supporters . . . , and an uncertain future. In other words, state dominance fostered federal disinterest." (ACIR, 1977a, p. 17)

PHA, which had been renamed Health Incentive Grants for Comprehensive Public Health Services, was abolished with the enactment of new block grants in the Omnibus Budget Reconciliation Act of 1981, when it was combined with seven other programs in the new Preventive Health and Health Services Block Grant.

Omnibus Crime Control and Safe Streets Act

The Omnibus Crime Control and Safe Streets Act of 1968 (Public Law 90-351) was enacted as a block grant to provide decentralized aid to State and local governments for a variety of activities that would promote crime control and criminal justice system improvement, including assistance to police, prosecutors, courts, corrections, and probation and parole. In addition to its block grant titles, the Act authorized the creation of the Law Enforcement Assistance Administration to oversee the action programs, and it funded discretionary grants and other component programs. President Johnson proposed the

legislation as categorical aid in the context of heightened public concern over the increased crime rates and civil disorders of 1967 and 1968. The program engendered early controversy, however, when many States and local governments purchased unneeded and sophisticated police equipment.

As the program evolved under LEAA, the Congress added more and more requirements. Additional provisions were written for correctional programs, for example, and a separate juvenile delinquency program was enacted. The mandatory annual comprehensive plans that the States submitted for LEAA review and approval became more voluminous. This stringency, however, resulted in strong complaints from State program directors that often centered on the LEAA guidelines for comprehensive plans. They were considered by many to be "restrictive, incomplete, repetitive, and overly detailed." (ACIR, 1977a, p. 26) Many felt that the plan requirements actually hindered substantive planning and that the plans themselves had become compliance documents rather than a means for improving the administration of the criminal justice system.

As the States became more impatient with the requirements of the program, broader Federal attempts to integrate the fragmented criminal justice system and so produce a coordinated police-courts-corrections attack on crime were also largely unsuccessful. Rates of reported crime increased periodically. There was frustration in the Congress with continued problems of State administration, while the support of local governments for the program was tempered by their not directly receiving block grant funds from Washington even though they were the dominant providers of many of the services. In addition, intense State and local rivalries continued. The program lacked a united constituency. The constant criticisms from all these quarters, combined with other factors such as persistently high crime rates, so increased LEAA's vulnerability that it was given no appropriations after fiscal year 1980.

Comprehensive Employment and Training Act

Since the average unemployment rate was less than 5 percent in the last half of the 1960's, the objective of Federal employment and training programs was to aid people who had the greatest problems in getting and keeping jobs--the poor, members of minority groups, the young, the inadequately educated. The Congress enacted numerous categorical programs aimed at helping these individuals become competitive in the job market. By 1967, responsibility for these programs was spread across 17 categorical programs and several Federal agencies. (ACIR, 1977b, p. 5) Legislative proposals for comprehensive reform led to enactment of the Comprehensive Employment and Training Act of 1973 (Public Law 93-203) to coordinate planning and delivery of services for the unemployed. (ACIR, 1977b, p. 9)

CETA transferred substantial authority from Federal agencies to more than 400 "prime sponsors," most of which were city and county governments, with State governments being given authority for sparsely populated areas. Prime sponsors were to design and administer flexible systems of employment and training services that could match the needs of the unemployed with program resources. With the 1974 economic recession, however, CETA's clientele changed. More and more people lacked not job skills but simply jobs. The Congress responded with appropriations for additional jobs in the public sector by creating a second CETA categorical program for public service employment. The specific designation of funds for public service jobs is what leads us to classify these components of CETA as categorical rather than block grants.

The pressure for creating more jobs continued, so that between fiscal years 1974 and 1977, public service employment accounted for most of the enormous increases in CETA's total appropriations. (Mirengoff and Rindler, 1978, p. 19) Over the years, however, complaints about fraud and abuse in the program increased. Although various reforms were enacted, the public service job programs were phased out in 1981. The CETA block grant program had barely begun to emerge from years of having been overshadowed by the public service jobs programs when proposals were circulated to replace CETA with some other program.

Community Development Block Grant

The Community Development Block Grant (Public Law 93-383) replaced urban renewal, model cities, and four other related categorical programs that had been administered by the Department of Housing and Urban Development (HUD). It was enacted amid a consensus favoring grant reform for community development. The Conference of Mayors, the National League of Cities, and others endorsed the block grant concept before any bill was introduced. (Conlan, 1981, p. 9) As of 1981, CDBG funds had been authorized for many activities including housing rehabilitation, maintenance of social service facilities, and general public improvements and economic development. Large counties, all central cities of metropolitan areas, and suburban cities with populations of more than 50,000 are entitled to apply for block grants in an amount calculated by formulas that considered levels of population, housing overcrowding, population growth lag, old housing, and poverty.

CDBG was the first block grant to completely bypass the States in fund allocations. Local governments had been the primary participants and the major partner with HUD in categorical programs for community development. Indeed, their strength in this respect may have prevented a battle with State governments for control of the block grant funds before CDBG's enactment. (ACIR, 1977a, pp. 32, 36; Conlan, 1981, p. 9) While no major Federal program is without controversy, CDBG has not been given the same degree of criticism in the Congress as the four other

block grants. This may explain its growth in budget authority from $1.8 billion in fiscal year 1976 to $3.7 billion in fiscal year 1981.

The Omnibus Budget Reconciliation Act of 1981 created a new block grant from a companion program of discretionary grants to small cities that is administered by States or, at a State's option, by the Federal Government. In another major change, the legislation modified the application process. Instead of submitting a detailed application that is subject to comprehensive HUD review, the recipient must submit a statement of, among other matters, its community development objectives and projected use of funds. The recipient must also make certain assurances and certifications relative to the use of such funds. Although the Secretary's role in authorizing the awarding of funds is limited, the legislation does provide that the required assurances and certifications should be made in a manner that is satisfactory to the Secretary.

Title XX Social Services

Title XX of the Social Security Act (Public Law 93-647) was enacted to provide Federal reimbursement to States for providing services to eligible working parents for child care, for training disabled adults in rehabilitation centers, for providing homemaker help for elderly people living alone, and the like. The program began as a block grant to States and replaced authorizations for services to welfare recipients formerly funded by titles IVA and VI of the Social Security Act. Many assisted under Title XX also received cash assistance under Aid to Families with Dependent Children and Supplemental Security Income.

Title XX was enacted in 1975 partly to help control the vast growth of Federal spending for social services from $282 million in 1967 to $1.7 billion in 1972. (Spar, 1981, p. 5) Much of this increase was accounted for by a shift from full State financing for institutional programs in mental health and retardation, corrections, and some education programs. To control these costs, the Congress capped at $2.5 billion the social service titles that were later to become Title XX. State ceilings calculated from a simple population formula were also established. HEW's efforts to publish regulations for the ceilings and otherwise tighten controls on the expenditure of Federal funds met widespread adverse reaction from State and local politicians, program administrators, advocacy groups, unions, national organizations, and provider agencies. They rallied against the proposed regulations along with the Congress, which acted twice to prevent the promulgation of the regulations. (Slack, 1979, pp. 10-11; Spar, 1981, pp. 6-7) The controversy culminated in the 1975 passage of Title XX into law.

Title XX was amended and the Social Services Block Grant Act was enacted in its place as part of the 1981 legislation. The purpose of this block grant is to consolidate Federal funding

assistance for Title XX Social Services and to increase the flexibility the States have in using funds. Many requirements that had been imposed on States were eliminated by this legislation, including the specifications that a portion of funds be used for services for welfare recipients and that most services be limited to families with incomes below 115 percent of their State's median income. (U.S. Congress, House, 1981, p. 992) Appropriations were reduced from $2.9 billion in fiscal year 1981 to $2.0 billion in fiscal year 1982.

The instability of early block grants

These short histories show the instability of the original block grants. LEAA has been abolished. PHA was merged into a large new block grant. The block grant component of CETA has an uneven history and there are pending proposals to eliminate it and substitute a new program. The Title XX Social Services program was amended and became the major component of the new Social Services Block Grant. Only the CDBG entitlement program continues intact and similar to its original form.

1981 LEGISLATION AND NEW PROPOSALS

In 1981, the President proposed six block grant programs consolidating more than 80 separate grant programs. The original proposals resembled President Nixon's special revenue sharing proposals of 1971 more closely than they did the existing block grants. (Barfield, 1981, p. 29; ACIR, 1977a, pp. 4-5) "Special revenue sharing" refers to a program with so few Federal strings that it falls between general revenue sharing and block grants. We describe the requirements of the block grants enacted in the Omnibus Budget Reconciliation Act of 1981 in chapter 2, but we summarize their characteristics in table 2 (on pages 10-11). 1/

In 1982, the Administration plans to propose seven new block grants and expand three of those enacted in 1981. 2/ For the longer term, the President proposed in his state of the Union message a "turnback" program consisting of

> "the return of some $47 billion in Federal programs to State and local government, together with the means to finance them and a transition period of nearly 10 years to avoid unnecessary disruption." (GSA, 1982, p. 80)

The States would draw upon a $28 billion trust fund as they assumed responsibility for more than 40 grant programs:

> "Turnback of these programs to States would be optional through FY 87. If states elect to withdraw from the Federal grant programs before then, their trust fund allocations would be treated as super revenue sharing and may be used for any purpose." (Fact Sheet, 1982, p. 2)

Table 2

The Structural and Fiscal Characteristics of 1981 Block Grants

Program	Federal agency	Services provided	First year authorization in $ millions	Distribution formula	Primary recipient	Effective date
Community Development (small cities)	HUD	Housing rehabilitation, community development	1,082.0	Population, overcrowded and old housing, poverty, population growth lag	States and general purpose local governments	October 1, 1981 (State administration continues as option)
Low Income Home Energy Assistance	HHS	Energy assistance	1,880.0	FY 1981 ratio to State under Home Energy Assistance Act	States	October 1, 1981
Social Services	HHS	Training, day care, family planning, child abuse, elderly, handicapped services	2,400.0	Population	States	October 1, 1981
Elementary and Secondary Education	Education	Education	3,937.0	School-aged population	State and local education agencies	July 1, 1982
Primary Care	HHS	Primary health services for medically underserved populations	302.5	FY 1982 ratio to State for community health centers	States	October 1, 1982 (State administration continues as option)

(table 2 continued)

Program	Federal agency	Services provided	First year authorization in $ millions	Distribution formula	Primary recipient	Effective date
Alcohol, Drug Abuse, and Mental Health	HHS	Alcohol and drug abuse prevention and treatment, mental health services	491.0	FY 1981 ratio to State for mental health, FY 1980 for alcohol and drug abuse	States	Optional in FY 1982
Community Services	HHS	Poverty programs	389.0	FY 1981 ratio to State under Equal Opportunity Act	States	Optional in FY 1982
Maternal and Child Health	HHS	Maternal and child health services, rehabilitation and treatment for handicapped children	373.0	FY 1981 ratio to State for consolidated programs	States	Optional in FY 1982
Preventive Health and Health Services	HHS	Comprehensive public health and emergency medical services, education for populations at risk	95.0	FY 1981 ratio to State for 8 categorical programs, State population	States	Optional in FY 1982

Source: Omnibus Budget Reconciliation Act of 1981, Public Law 97-35.

One official, speaking for the "new federalism" of the Administration, summarized the overall direction of these proposals as follows:

> "The existing and proposed block grants are part of a logical progression from a federally dominated categorical grant-in-aid system to the State oriented system proposed under the New Federalism. . . . Block grants are a mid-way point in this necessary transfer of authority and responsibility from the Federal Government to the States." 3/

OBJECTIVES, SCOPE, AND METHODOLOGY

The original block grants and those enacted in 1981 provided the material we analyzed in the four issue areas specified in meetings with the staff of the Subcommittee on Oversight of the House Committee on Ways and Means. (We have reprinted the original request in appendix I.) The areas we examined derived from the following questions:

1. How has block grant legislation attempted to balance the competing goals of flexibility and accountability?

2. Have the poor and members of other disadvantaged groups been served equally under block grants and categorical programs?

3. Have there been savings in administrative costs under block grants compared to categorical grants?

4. What are the extent and the nature of evaluative information available to the Congress under block grants?

One method we used to address these issues is the evaluation synthesis, in which existing evaluation studies are assembled, their results synthesized, and their methodologies assessed. The evaluations thus serve as our data base for addressing the specific congressional questions we were asked. In performing this synthesis, we limited our literature review to reports, studies, and data sources that are national in scope. These included evaluations prepared by GAO and other Federal agencies and by nongovernmental sources. Where necessary, we supplemented and confirmed the evaluation data through agency officials responsible for administering the programs. We used the synthesis technique to address the questions on targeting to disadvantaged groups and on administrative costs, and we discuss the criteria we used for selecting, analyzing, and reporting on these studies briefly in the pertinent chapters. Our discussion of data quality and other technical issues is in appendixes II and III and in the notes in appendix IV.

We analyzed the legislative provisions and the Federal regulations for the older and the newly created block grants and present the results of this analysis in chapter 2 in our discussion of accountability requirements. However, we made no attempt to verify the degree of compliance with these provisions at the State and local levels.

We conducted interviews with directors of Federal units responsible for evaluating block grant programs and with others who are also knowledgeable about the programs' operations and evaluations. For block grants for which there was more than one evaluation office, we interviewed at least the officials at the unit with the largest budget and the clearest mandate for evaluation. Our reliance on interview data is heaviest in chapter 5 in our discussion of Federal block grant evaluations. 4/

There are two major limitations to our methodology. First, changes under way in the 1980's, if they persist, could lead to experiences under the block grant programs that are totally different from earlier experience. For example, increasing economic constraints and fiscal conservatism could increase the pressure for a reduction in Federal requirements. Second, relying on a universe of only five early block grant programs provides no firm basis from which to draw conclusions. There is, however, no reason to assume that the conditions that influenced the earlier programs will not be as important in the 1980's or that experience under the five programs does not reflect either the realities of implementation or those of Federal accountability.

SUMMARY

Extensive interest in the block grant mechanism is evidenced by the recent consolidation of more than 50 categorical and 2 former block grants into 9 new block grant programs. Since the Congress exercises oversight of these programs, any information on problems or key issues relevant to block grant implementation and administration is useful.

In chapter 2, we look at the issue of the legislative requirements imposed in enacted block grants. These issues derive from the need to have minimal provisions constraining flexibility and, at the same time, to insure that measures exist for documenting what the expenditure of public funds is accomplishing. We discuss how these requirements have been imposed, what changes have occurred in them over time, and the problems of drawing inferences from experience for understanding the way the new block grants might operate.

In chapter 3, we look at whether people who are poor or members of minority groups receive their share of services under block grants. We attempt to answer whether block grants have been equitable, compared to categorical grants, in serving specially identified groups. We examine the three older block

grants, which were intended, at least in part, to target services, and we relate our findings to new block grants.

In chapter 4, we are concerned with the assumption that block grants, intended to have fewer Federal requirements, have, as a result, lower administrative costs. This argument was used in part to justify budget reductions when the new block grants were established by the 1981 Omnibus Budget Reconciliation Act.

In chapter 5, we examine the Federal approach to evaluating the block grant programs. We explore the nature and extent of Federal evaluation under each of the five original block grants. We present our conclusions in chapter 6 and respond to agency comments to a draft of this report there and in appendix VI.

CHAPTER 2

HOW HAS BLOCK GRANT LEGISLATION ATTEMPTED TO BALANCE THE COMPETING GOALS OF FLEXIBILITY AND ACCOUNTABILITY?

Social goals often compete with one another. This was evident in the block grants enacted before 1981, when the Congress and Federal agencies sought to balance two concerns in designing and operating social programs: how to maintain grantees' flexibility and how to insure that Federal funds would be spent to promote social and fiscal accountability.

The term "accountability" is used in this report to signify the responsibility of grantees to the Congress and Federal agencies for the proper expenditure of Federal dollars as well as their responsibility for implementing programs effectively. 1/* Accountability can exist at many levels. While accountability at the State level and accountability at the local level are equally important concerns, we concentrate on the grantees' responsibility to the Federal Government because this had in the past been an area of congressional interest.

The tools of accountability are several; researchers have identified 18 accountability mechanisms that are applicable to block grants. They vary in burden from self-reports, through a national uniform reporting system, to nationwide but independently conducted evaluations. In addition, restrictions on grantees' expenditures can serve to channel funds into activities supportive of national concerns. These formal provisions may differ from grant to grant, depending on the expectations and priorities of the Congress and the administration. (Chelimsky, 1981, pp. 112-17)

Our objective in this chapter is to identify how the competing goals of accountability for Federal dollars and flexibility for grantees have been addressed in the five block grants CDBG, CETA, LEAA, PHA, and Title XX. We focus on legislative provisions and Federal regulations directed toward the grantees in four areas of accountability: planning, expenditures, recordkeeping and reporting, and auditing. We derived these categories directly from the legislation.

In the first part of the chapter, we summarize initial legislative provisions as well as changes over time in the nature and the extent of legislative and regulatory requirements. Later in the chapter, we contrast the requirements with the accountability provisions of the block grants that were created by the

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*Notes are in appendix IV.

1981 Omnibus Budget Reconciliation Act. We did not attempt to assess the degree of Federal enforcement of or State compliance with any given accountability requirement. We conclude with observations on accountability under the new block grants.

PLANNING REQUIREMENTS UNDER BLOCK GRANTS BEFORE 1981

Initial legislation for all five of the early block grant programs required grantees to submit annual plans that described proposed strategies and activities. As accountability mechanisms, plans insure the maintenance of national objectives across grantees by requiring explicit statements of policy and objectives. (Chelimsky, 1981, p. 113) Plans and the administrative mechanisms that accompany them are also a means by which Federal agencies may review and influence a program's implementing and operating procedures.

In table 3, we have listed some of the general types of planning required of grantees under the authorizing legislation for the pre-1981 block grants. Each category encompasses a number of individual legislative provisions. The individual requirements differed in specificity and in the burden they placed on grantees. For example, PHA's planned-use report provisions were very general, consisting of little more than a description of the agreements grantees needed to make if they were to receive funds. In contrast, the CDBG legislation contained detailed provisions for the housing assistance planning document. These required a survey of existing housing stock and the housing needs of low-income families, a specification of annual goals for the number of individuals who would be assisted, and an identification of the locations of proposed low-income housing projects.

In addition to these planning report requirements, the enabling legislation of early block grants usually contained other provisions, such as for

--comprehensive plans, summarizing other general activities of the grantee in the area of the grant and their link to block grant activities, alternative sources of funding, or the use of those funds for long-term goals and activities;

--needs assessments, surveying current conditions or services in communities or analyzing what needs were not being met and how program activities would address them;

--development of performance standards, specifying in varying degrees the criteria for determining the success of program activities in meeting community needs;

--assurances of compliance with programmatic requirements or with more general Federal requirements, such as EEO provisions; and

Table 3

Planning Requirements Imposed on Grantees in Initial Legislation a/

	PHA 1966	LEAA 1968	CETA 1973	CDBG 1974	Title XX 1975
Planned-use reports	yes	yes	yes	yes	yes
Comprehensive plans	yes	yes	yes	yes	yes
Needs assessment		yes	yes	yes	yes
Development of performance standards	yes		yes	yes	
Assurances of compliance	yes	yes	yes	yes	yes
Other components		yes	yes	yes	yes
Planning councils		yes	yes		
Agency approval of plan	yes	yes	yes	yes	yes b/
Citizen participation			yes	yes	yes

a/In this table, we summarize only titles in the authorizing legislation that apply to the programs we defined as block grants in chapter 1 or general provisions that apply to the block grant titles. We exclude planning requirements that pertain to other titles or programs not meeting our definition in chapter 1.

b/Under Title XX, grantees were required to submit two types of plan, one focusing on the substance of planned activities and the other on administrative matters. Agency approval was confined to the latter.

--other components, some of which could be quite extensive, including reports on progress, plans for citizen participation, and detailed plans outlining activities in specific areas of grant activity.

Grantees for all five of these block grants were initially required to submit some type of planning report or application, comprehensive plans, and assurances of compliance with statutory requirements. The CDBG and CETA planning provisions were the most extensive, requiring needs assessments, development of performance standards, citizen participation in the planning process, and other planning components.

In the LEAA legislation, an effort had been made to ease the financial burden such planning requirements would impose on grantees. The 1968 Omnibus Crime Control and Safe Streets Act authorized States to make at least 40 percent of State planning agency funds available to local governments or combinations of governments for participating in the development of the State comprehensive plan. 2/

While the enabling legislation for all five block grants gave the Secretary of the pertinent administering Federal agency the authority to approve grantee plans, this role was circumscribed for all five grants, each grant having its own specific limits. Generally, the administering Federal agencies approved plans if the documents conformed to the statutory requirements and contained the appropriate assurances. The Title XX legislation, for example, prohibited the Secretary of HEW from withholding payment from grantees on the grounds that their activities were not services or directed toward the program's legislative goals. Moreover, problems in the planning document rarely led to a loss of funding. In LEAA's early years, for example, the agency was interested in continuing the flow of Federal funds into the different regions and sometimes approved plans even though they had major deficiencies. (ACIR, 1977d, p. 69)

Changes in planning requirements of the pre-1981 block grants over time

Over time, the predominant pattern of change for three of the five grants (CDBG, CETA, and LEAA) was an increase in the number and scope of planning requirements through either amendments or regulations. These included additional plans, more information about planned activities, strategies for addressing problems in particular content areas, and an expansion of the role of various groups in the planning process.

The increase in LEAA's planning requirements illustrates this change. The growth in LEAA's requirements was in part a byproduct of the expansion of the program's functional responsibilities. Amendments in 1971, for example, required States

to describe in their comprehensive plans their efforts to allocate assistance in areas having high crime rates and extensive law enforcement activities. States seeking to apply for grants for correctional facilities and institutions were also required to submit these descriptions as part of the State plan. Amendments in 1976 mandated specific improvements in the court system and called for a separate judicial plan.

CDBG also underwent changes in its planning provisions. Additional requirements imposed through amendments and regulations included provisions for a multiyear housing assistance plan in addition to the annual plan already required, statements of multiyear strategies in particular areas of assistance (economic development, neighborhood revitalization, and so on), and plans outlining activities to insure citizen participation. (Dommel, 1980, pp. 9, 25-29) The size of the CDBG plan grew from its average length of 50 pages in fiscal year 1975 to as large as 350 pages in fiscal year 1979. (HUD, 1975, p. 3, and 1980, p. XIII-8)

Changes in CETA's planning requirements usually took the form of refinements in earlier requirements. For example, the needs assessment provisions in the 1973 legislation specified that prime sponsor planning councils would conduct "continuing analyses of needs for employment, training, and related services . . . ." (Pub. L. No. 93-203, sec. 104) By 1978, the councils were required to conduct

> "(A) a detailed analysis of the area to be served including geographic and demographic characteristics of significant segments of the population to be served (with data indicating the number of potential eligible participants and their income and employment status), and (B) a comprehensive labor market analysis and assessment of the economic conditions in the area, identifying the availability of employment and training in various public and private labor market sectors in such area and the potential for job growth in such sectors . . . ." (Pub. L. No. 95-524, sec. 103(a)(1))

Increases in planning requirements for Title XX were considerably fewer than for the three other grants. Amendments to its authorizing legislation required States to set standards for the facilities in which recipients of Supplementary Security Income (SSI) lived and to report these standards in their comprehensive annual services plans. Beginning in fiscal year 1982, grantees were expected to submit annual training plans, but this was never implemented.

In addition to imposing more planning requirements, later amendments to CDBG, CETA, and LEAA gave administering Federal agencies a greater role in the approval of plans. In contrast to their fairly circumscribed review of planning documents in the early years of the programs, agency officials began to review the

adequacy with which grantees' activities addressed program goals and the needs of target populations. CDGB and CETA officials also became more adverse to releasing funds before revisions to planning documents had been made.

As the burden of planning requirements increased, efforts were made under CDBG, CETA, and Title XX to simplify other aspects of grantees' planning. Amendments to CETA in 1978 eliminated the comprehensive annual plans for each CETA title, substituting a single multiyear master plan and annual updates. The Title XX legislation was also amended in 1980 to permit States to submit multiyear service plans. Title XX planning regulations further simplified planning activities.

In contrast to the increase in the scope of planning activities under CDBG, CETA, and LEAA, requirements for PHA remained stable over time. A simplified State plan review system was introduced in 1972 regulations that required grantees to submit not the plan itself but a form certifying that all documents required for a plan were on file in State offices. (Shikles and Kruegor, 1975, pp. 11-12)

FEDERAL RESTRICTIONS ON GRANTEES' EXPENDITURES IN BLOCK GRANTS BEFORE 1981

By means of programmatic requirements, the Congress and administering Federal agencies can exercise direct influence on the spending of grant funds to insure consistency with national objectives. Such provisions affect a significant area of the grantees' flexibility--their control over the distribution of funds.

As can be seen in table 4, some federally imposed spending restrictions are grant-specific and influence the nature and content of program activities directly. These include

--the specification of eligible and ineligible activities for funding within the general context of the grant,

--the designation of intended beneficiaries of or target populations for grant funds,

--the statutory imposition of ceilings on certain categories of expenditure,

--the specification of funding objectives for certain functions (otherwise known as statutorily "earmarked" funding provisions that designate specific amounts for a given activity), and

--the establishment of "passthrough" requirements, under which State grantees must pass some percentage of grant funds on to other designated subgrantees.

Table 4

Restrictions on Grantees' Expenditures Imposed in Initial Legislation a/

	PHA 1966	LEAA 1968	CETA 1973	CDBG 1974	Title XX 1975
Limits on eligible and ineligible activities	yes	yes	yes	yes	yes
Target populations	b/	b/	yes c/	yes c/	yes c/
Ceilings on expenditure categories		yes			
Funding objectives for specific activities (earmarks)	yes	yes			yes
Passthroughs		yes			
Matching	yes	yes			yes
Maintenance-of-effort				yes	yes
Nonsupplant	yes	yes	yes		

a/In this table, we summarize only titles in the authorizing legislation that apply to the programs we defined as block grants in chapter 1 and general provisions in the legislation that apply to the block grant titles. We exclude requirements that pertain to other titles or programs not meeting this definition.

b/The services funded under this grant benefit communities generally but do not specify that certain subpopulations receive specific services.

c/This block grant uses low income and other factors as criteria in targeting services.

Other Federal spending restrictions are designed to preserve the supplemental role of Federal funding, and their wording varies little from grant to grant. These include

--matching requirements, under which grantees contribute a specific amount of funds or resources directly for program activities,

--maintenance-of-effort specifications that grantees maintain the current or some past level of program expenditures, and

--"nonsupplant" provisions requiring grantees to use Federal money to supplement non-Federal sources and not to substitute for those funds.

In table 4, we have summarized the restrictions on grantees' expenditures imposed by the initial legislation for the five block grants. 3/ Grant-specific restrictions tended to outnumber generic restrictions. All five grants constrained the activities to be supported with block grant funds, and three grants designated specific funding levels for certain activities. The majority also targeted specific populations for services. The more generic restrictions were fewer in number but all five grants contained either a maintenance-of-effort or a nonsupplant provision.

Changes in restrictions on funding in the pre-1981 block grants over time

As the legislative and regulatory requirements changed, CDBG, CETA, and LEAA tended to specify in increasing detail how funds should be spent. Over time, these three grants began to take on some of the appearance of categorical programs, but this gradual recategorization took a number of forms. In some instances, the Congress added provisions to the grant legislation that required grantees to address activity areas or beneficiary categories with high national priority. In addition, new categorical programs were created and added to the grants' enabling legislation. 4/ The Congress also designated more frequently the specific amounts of funding for certain program activities. The administering Federal agencies placed further limits on grantees' activities by means of regulations intended to improve program operations, such as tightened eligibility requirements for program beneficiaries. The end effect was to reduce the spending discretion of the grantees.

Recategorization and the corresponding restrictions on grantees' flexibility were most apparent in LEAA but occurred also, if to lesser degrees, in CDBG and CETA. Amendments were passed in 1971 and 1974 to the Safe Streets Act that provided funds for correctional institutions and facilities, juvenile

justice programs, and community crime prevention activities. The first two activities were established as separate formula programs funded under the same title as the block grants; the last was intended as a priority area within the block grant itself. In addition, to be eligible for financial aid for correctional institutions and facilities, a grantee had to certify that it would maintain the level of its fiscal year 1972 block grant funding for such programs. (ACIR, 1977a, p. 19) Recategorization of the LEAA block grant culminated in 1979 with the passage of the Justice System Improvements Act, which identified 23 categories of activity eligible for block grant funding.

Amendments to the CETA legislation restricted certain administrative expenditures, identified target populations in greater detail, tightened beneficiary eligibility criteria, and added two formula grant programs. The 1978 amendment required grantees to specify in some detail how they planned to serve the special needs of young people, older workers, and recipients of public assistance. It also limited participation in block grant programs for the economically disadvantaged to individuals who were both disadvantaged and unemployed, underemployed, or in school. The amendment set 20 percent ceilings on administrative costs, reaffirming an earlier U.S. Department of Labor policy that encouraged grantees to keep administrative costs to a minimum. Finally, the amendments created two formula programs within the context of the CETA legislation: the countercyclical employment program and the private sector opportunities program.

HUD regulatory and policy initiatives led to much of the increase in Federal involvement in CDBG operations. Over time, HUD regulations raised the priority of social and geographic targeting. Under 1978 regulations, activities identified as serving low-income and moderate-income recipients had to meet the test of "principally benefiting" those recipients, either by confining eligibility to them or by insuring that the majority of the benefits would go to them. In addition, 1978 regulations favored the concentration of physical development activities in deteriorating neighborhoods over their dispersal across a geographic area. (Dommel, 1980, pp. 20, 26)

Amendments to CDBG in 1979 gave further specificity to the definition of eligible activities by adding economic development as a program objective. At the same time, the Congress created a separate grant program (the Urban Development Action Grant) under the same title as the block grant as a means of targeting more Federal money to severely distressed cities.

In contrast to CDBG, CETA, and LEAA, Title XX was characterized by action that loosened Federal spending restrictions. For example, 1976 regulations relaxed the restrictions on expenditures for room and board for alcohol and drug abusers. The 1976 amendments made available an additional $200 million for child day care services that required no matching from

grantees. Other legislation waived individual income tests for eligibility for services in certain cases, substituting a more general and geographically based requirement.

PHA changed little, although there was some movement toward recategorization in its first amendments, requiring expenditures for direct services and evaluation in 1967 and a drug abuse program in 1970. In the later years of the program, however, the Congress did not pass additional programmatic requirements for the PHA block grant, nor did HEW become more active in its administration. 5/ This halt in recategorization was more a sign of the lack of congressional and agency interest in the block grant than of their interest in maintaining grantees' flexibility. (ACIR, 1977a, p. 17) Appropriations for the program remained constant after fiscal year 1970 and more than 20 categorical health programs were legislated outside this grant.

RECORDKEEPING AND REPORTING REQUIREMENTS FOR BLOCK GRANTS BEFORE 1981

Block grant provisions for recordkeeping and reporting require grantees to document certain aspects of program operations and to draw on this documentation in administering the program and in reporting to the administering Federal agencies. Recordkeeping and reporting provisions facilitate the review of performance and help determine whether grantees fulfill national and local objectives. (Chelimsky, 1981, pp. 114, 116) Recordkeeping and reporting are also preliminary to program audits and evaluations.

The contents of records

In table 5, we summarize the recordkeeping requirements under the initial legislation for the five block grants. The initial statutory provisions specified that Federal agencies require grantees to document all or any of the following: their progress toward meeting objectives, how they carried out program activities, whether they reached eligible populations, how they accounted for expenditures and costs, what financial transactions they conducted, and what the experiences of participants were after they completed the program. In some cases, Federal agencies directed grantees to record and report on the performance of subgrantees. The initial statutory provisions concerning recordkeeping for PHA were minimal while for CDBG and CETA they were extensive. PHA required States to keep whatever records the Surgeon General chose to require. CETA required grantees to keep records on program activities, program expenditures, recipient populations, and participant experiences after completion of the program.

Amendments and agency actions established comparable recordkeeping activities for several block grants. For example, all five were eventually required to provide information on activities, expenditures, and progress toward objectives. CDBG, CETA,

Table 5

Categories of Grantees' Recordkeeping Responsibilities Imposed in Initial Legislation a/

	PHA 1966	LEAA 1968	CETA 1973	CDBG 1974	Title XX 1975
General statement	x	x	x	x	x
Progress toward objectives and standards				x	
Activities			x	x	
Recipient populations			x		
Expenditures and costs		x	x	x	x
Participants' experiences after completing the program			x		

a/For some categories, recordkeeping responsibilities are inferred from reporting responsibilities

and Title XX were required to monitor the recipient populations. The requirements under certain recordkeeping and data collection categories also became more detailed for some of the grants. For example, CETA's initial statutory provisions for monitoring the participants' experiences stated that grantees should collect data on demographic characteristics and the

> "duration in training and employment situations, including information on the duration of employment of program participants for at least a year following the termination of Federally assisted programs . . . ." (Pub. L. No. 93-203, sec. 313(b)(2))

The 1980 regulations required grantees to collect information on the status of participants after they entered unsubsidized employment and to retain on file participant's records for five years after their enrollment in the program.

Reporting frequency

The initial legislation for all but five grants required grantees to submit reports to the administering Federal agencies. The CDBG legislation specified that these reports had to be submitted annually. Early regulations for the grants specified report contents and frequency in more detail. For example, the Social Services Reporting Requirements were issued to coincide with the effective date of the Title XX program. (One America, 1980, pp. 19-20) These required the States to collect comparable data on recipients, services, and costs, among other things, and report them both quarterly and annually. Regulations for CETA in 1974 called for quarterly reports on program progress and participant characteristics and monthly reports on cash transactions.

The number of reporting requirements for all block grants increased over time. Provisions for annual reports were added to CETA and PHA. Four of the five block grants eventually required grantees to report some kinds of program data in a uniform format. In LEAA's case, the additional reporting requirements led grantees to require more reports from subgrantees. 6/

GRANTEES' AUDIT REQUIREMENTS UNDER BLOCK GRANTS BEFORE 1981

Audits have traditionally been one of the strongest tools the Federal Government has for insuring its accountability for achieving a program's integrity, efficiency, and national objectives. (Chelimsky, 1981, p. 115)

The initial legislation for all five block grants authorized Federal agencies to conduct audits, but only CETA specifically gave this responsibility to grantees. Some of these legislative provisions were very general in their language; CETA, LEAA, PHA,

and Title XX authorized Federal agencies to have access to records and to conduct investigations for program oversight. Others were specific; CDBG required HUD to conduct annual audits, while CETA required recipients of block grant funds to maintain procedures that would insure a proper accounting of funds.

While legislation gave Federal agencies general responsibility for audits, agency regulations for CDBG, CETA, and LEAA specifically provided for audits by grantees. For example, HUD required grantees to make independent audits at least once every two years. CETA regulations in 1980 directed prime sponsors to set up monitoring units to make periodic audits of program records. OMB circulars during the period also required independent audits of grantees.

Before 1980, we and others issued several reports that disclosed problems in achieving effective audit coverage of Federal grant programs. Some programs had been audited repeatedly while others had received little or no coverage. In October 1979, OMB issued an amendment to one of its circulars meant to correct these conditions. While there has been some improvement, much needs to be done. To address this situation, we are working with the Federal, State, and local governments and the public accounting-audit community to develop new approaches that will insure effective and efficient audit coverage.

WHAT PLANNING, SPENDING, AND REPORTING REQUIREMENTS HAVE BEEN IMPOSED BY THE NEW BLOCK GRANTS?

The new block grants differ from the older grants by imposing certain generic categories of accountability more consistently. In table 6 on the next page, we show how the nine new block grants compare in the general types of requirement we have described for CDBG, CETA, LEAA, PHA, and Title XX. As in our analysis earlier in this chapter, these categories summarize requirements that can and do vary in both number and severity, depending on the grant. The table reveals that the 1981 block grants have a number of planning, reporting, and auditing requirements in common. In some cases, this has been accomplished through general provisions that apply to a set of block grants; in others, comparable provisions have been written into the enabling legislation of the individual grants. All nine grants require grantees to submit plans for how they will use the funds they receive, to assess their needs, and to provide for certain forms of citizen participation. The majority also require grantees to make specific assurances that they will comply with statutory requirements and to report on their activities, recipients, expenditures, and progress toward meeting program goals.

The new grants also share several types of restriction on expenditures. All include at least a general description of eligible and ineligible activities and identify program beneficiary categories. The majority set statutory ceilings on expenditures

Table 6

Grantees' Planning, Spending, Reporting, and Auditing Provisions in the Omnibus Reconciliation Act for Nine Block Grants a/

	Community Development (small cities)	Low Income Home Energy Assistance	Social Services	Elementary and Secondary Education	Primary Care	Alcohol, Drug Abuse, and Mental Health	Community Services	Maternal and Child Health	Preventive Health and Health Services
Planning									
Planned-use reports	x	x	x	x	x	x	x	x	x
Comprehensive plans									
Needs assessments	x	x	x	x	x	x	x	x	x
Development of performance standards	x		b/	x	x	x			x
Assurances of compliance	x	x		x	x	x	x	x	x
Planning councils				x c/					
Agency approvals	x d/				x d/	x d/		x d/	
Citizen participation	x	x	x	x	x	x	x	x	x
Restrictions on expenditures									
Limits on eligible and ineligible activities	x	x	x	x	x	x	x	x	x
Target populations	x e/	x e/	x	x e/	x e/	x	x e/	x e/	x
Ceilings on expenditures f/	x	x		x		x	x	x	x
Funding objectives for specific functions (earmark)						x			x
Passthroughs g/				x	x	x	x		x
Matching	x				x			x	
Maintenance-of-effort				x h/					
Nonsupplant				x		x			x
Reporting									
Progress toward objectives	x			x	x	x	x	x	x
Activities	x	i/	x	x	x	x	x	x	x
Recipient populations	x	i/	x	x	x	x	x	x	x
Expenditures and costs	x	i/	x	x	x	x	x	x	x
Participant outcomes j/						x	x		x
Subgrantee performance k/									
Audits conducted by grantee	x	x	x	x l/	x	x	x	x	x

(notes to table 6)

Source: Omnibus Budget Reconciliation Act of 1981, Public Law 97-35; United States Congress, House of Representatives, Omnibus Budget Reconciliation Act of 1981, Conference Report 97-208, Book 2 (Washington, D.C.: U.S. Government Printing Office, 1981).

a/Federal agencies are also subject to certain accountability requirements in the Omnibus Budget Reconciliation Act. For one example, the Low Income Home Energy Assistance Grant requires that the Secretary of HHS make annual reports to the Congress on energy consumption and the number and income levels of the households assisted by the grant. For another, the four health block grants specify that the Secretary of HHS must report on grantees' performance in FY 1983.

b/The legislation directs the Secretary of HHS to develop performance criteria that might be used in State evaluations, but it does not require the States to use such standards.

c/The legislation mandates governor-appointed advisory councils whose functions include, among a number of activities, giving advice on planning.

d/Only these four grants specifically describe the Federal role in approving applications. Under all other grants, funding applications must be reviewed by the administering agency but the nature of the review process is not always described. For three health grants and the Community Services and Low Income Home Energy Assistance grants, the Secretary of HHS must review applications to see whether they contain all the assurances required by statute but may not prescribe the manner by which States comply with these assurances.

e/These six block grants are either targeted specifically toward or include among their target populations low-income people.

f/Includes caps on administrative costs and ceilings on expenditures for certain services.

g/Passthrough provisions permit the States to pass on a percentage of funds up to a statutorily specified figure to subgrantees who receive funding under categorical consolidations. The legislation generally does not provide that States allot a fixed percentage of these funds to subgrantees. The one exception is the Primary Care Grant for FY 1982. Most of the passthrough provisions apply through FY 1984.

h/The Secretary of Education may waive this requirement for one fiscal year only.

i/The Secretary of HHS is required to collect data in these categories and use them in preparing annual reports to the Congress.

j/The reporting provisions in the legislation for the 1981 block grants, unlike those for CETA, do not specifically require that the States track individual program beneficiaries but they do not proscribe it.

k/This information would be collected in the context of an effectiveness evaluation of a subgrantee's performance. The legislation requires States to conduct such evaluations but does not specify at what intervals. Hence, information on the performance may not be collected annually.

l/The secretary of Education has proposed regulations that apply title XVII audit provisiors to this block grant.

for certain matters, the most common being a limit on administrative costs that can be funded with block grant money. Five require that grantees pass a percentage of funding on to subgrantees in the early years of the grant's operation. Few contain funding objectives for specific functions, matching, maintenance-of-effort, or nonsupplant provisions.

While the new grants impose a number of constraints on expenditures, some also give grantees greater spending discretion. Five permit them to transfer a percentage of their funds to certain other block grants. For example, four of the grants (Alcohol, Drug Abuse, and Mental Health; Low Income Home Energy Assistance; Preventive Health and Health Services; Social Services) specify that a percentage may be transferred to the other health-related block grants. Two (Community Services and Social Services) also permit the transference of funds to the Low Income Home Energy Assistance grant, which in turn permits a reciprocal percentage transfer to these programs.

The enabling legislation of the newer grants tends to go into more detail in establishing reporting and auditing requirements but to contain fewer planning provisions and spending restrictions than the older grants, as we see when we compare tables 3-5 with table 6 category by category. 7/ For example, only one of the earlier enabling statutes required that reports describe progress toward meeting objectives or serving recipient populations, but at least seven of the new grants have such provisions. No provisions in the 1981 grants require that plans be as detailed or as broad in scope as the comprehensive plan provisions in the earlier grants did.

The mix of spending restrictions differs in the new grants too. Specifications of target populations, ceilings on administrative expenditures, and requirements that some percentage of funds be passed through to subgrantees appear in the majority of them. The older grants made greater use of matching, maintenance-of-effort, nonsupplant, and earmarking of funds for specific program activities. The ability of grantees in the new grants to transfer funds across block grants is in marked contrast to the earlier grants, which did not permit such transfers.

The new grants also institute some requirements that appeared in the older grants in amendments and regulations but not in their initial legislation. Much of the detail of the earlier reporting requirements is incorporated in the new grants. 8/ Many of the earlier grants became increasingly specific about who could receive services, but all the new grants now begin with general descriptions of target populations. Three have relatively detailed definitions of which low-income population groups are eligible for services.

Finally, the new grants differ from the old ones in the roles that they prescribe for the administering Federal agencies. All the earlier grants authorized the Secretary or head of the

pertinent agency to issue regulations necessary for administering nearly all aspects of a grant. In contrast, only two of the new grants (Community Development and Elementary and Secondary Education) give the Secretary somewhat comparable regulatory authority. Although the administering Federal agencies review applications for funding under the new grants, their role in approving plans is in many cases confined to insuring that the plans meet the statutory requirements and contain the required assurances. Five of the new grants (Alcohol, Drug Abuse, and Mental Health; Community Services; Low Income Home Energy Assistance; Maternal and Child Health; Preventive Health) explicitly preclude the Secretary from specifying the manner in which grantees must comply with certain statutory requirements. In the majority, however, the Secretary can establish standards for the form or the content of the grantees' reports.

INFERENCES

The Federal experience with block grants indicates that before 1981 there was a general tendency to increase planning, recordkeeping, reporting, and auditing requirements and to decrease the spending discretion of grantees in the interests of attaining national program objectives. The new block grants of 1981 begin with a mixture of requirements, some of which provide for greater discretion than that authorized to grantees under the enabling legislation of the older grants and some of which are more prescriptive than before. The new grants also contain some reporting and targeting provisions comparable to those that emerged through amendments and regulations to the earlier grants. Thus, the new legislation seems to address, in varying degrees, some of the accountability issues of the earlier grants.

The enabling legislation for 1981 block grants has tended to tighten reporting requirements and to be less restrictive in terms of planning and spending. In effect, the Federal Government has chosen to rely more heavily on accountability mechanisms that give a retrospective view of program operations and accomplishments than on those that would lead to more direct involvement in program decisionmaking and administration.

Relying on reporting and auditing mechanisms may have consequences for national accountability in the long term. One result may be a time lag in obtaining information at the national level. Federal agencies are unlikely to have a national perspective on actual program operations until they receive the first annual reports. Were the Federal Government to decide to redirect program funds, some procedures for withholding funds from grantees would require that agencies conduct additional investigations before instituting withholding proceedings, which might result in considerable delay before Federal action could be taken. Given the greater flexibility grantees have under the 1981 block grants, it remains to be seen how effective any retrospective mechanisms will be to the Congress and the Federal agencies in their oversight activities, however they choose to exercise them.

Whether these and other issues of accountability emerge will partly depend on the relative weights that are accorded to Federal and State accountability and flexibility and on the nature of the Administration's implementation of some of the accountability tools provided by the Omnibus Budget Reconciliation Act. In keeping with the present Administration's view of block grants as an interim step toward full State control of certain functions, OMB has announced a policy of exercising as little Federal control over the new block grants as possible. (Steinberg, 1982) Recent Federal regulatory activities have been consistent with this policy. HHS, for example, has issued regulations that allow grantees to determine the form and content of their annual applications and reports for all the block grants it administers even though the Omnibus Budget Reconciliation Act authorizes a Federal role in this regard. There are some efforts by some States to establish common reporting systems in some common topical areas under way. For example, members of the Association of State and Territorial Health Officers have sought to modify their current national reporting system to provide data on the Maternal and Child Health and Preventive Health and Health Services grants. The National Governor's Association and the American Public Welfare Association have a similar effort under way for the Low Income Home Energy Assistance Act. There is no Federal requirement to establish these systems, however, and their continued funding is uncertain. It is therefore likely that at least in some areas the scope and quality of information that Federal agencies receive and transmit to the Congress and the public will vary substantially. Such variation may hamper the Federal Government's ability to monitor the effectiveness of social targeting and administrative costs, should it decide to do so.

SUMMARY

An important component of the definition of block grant funds is that

> "administrative, fiscal reporting, planning, and other federally imposed requirements are kept to the minimum amount necessary to ensure that national goals are being accomplished." (ACIR, 1977a, p. 6)

However, the five block grants that were established between 1966 and 1975 ranged from one with relatively few requirements (PHA) to one with very extensive planning, spending, reporting, and auditing requirements (CETA).

The legislation that established the five block grants before 1981 emphasized the discretion of State and local governments. Over time, changes in the initial legislative provisions predominantly increased the number and complexity of accountability requirements. Planning requirements increased continually for all block grants except two (PHA and Title XX), whose planning requirements remained stable or were reduced over the life of the grant. Spending restrictions also increased for most of the five

block grants, although the patterns varied from extensive provisions requiring definitions of target populations and eligible activities (under CETA) to provisions containing relatively few restrictions (under PHA). Reporting responsibilities generally increased under all five grants.

Since 1981, the new block grants have tended to impose the same generic accountability categories. A number of comparable planning, reporting, and auditing requirements have been placed on all nine of the new grants we reviewed. The majority of the new grants also specify restrictions on activities that can be funded, define targeting, and set ceilings on expenditures. Some of the accountability requirements that emerged over time in the earlier grants have been imposed on the new ones at the outset. Other planning and expenditure provisions in the older grants, however, have been dropped. On the whole, the new grants have more specific reporting and auditing provisions and fewer planning and spending requirements than the earlier grants.

The tensions in the earlier grants between insuring accountability to the Federal Government and giving grantees as much flexibility as possible may persist in the new grants. The Federal role in administering block grants has been sharply curtailed by the Omnibus Budget Reconciliation Act and by present Administration policy. The Federal Government has chosen to rely in the new grants more on intrastate accountability mechanisms that give a retrospective view of program accomplishments than on interstate mechanisms that could lead to more direct involvement in program decisionmaking. Depending on how the accountability provisions in the new grants are implemented and on the scope, topical coverage, and implementation of voluntary State efforts to establish and maintain common reporting systems, variations in the quality and comparability of State-collected data could affect the ability of the Federal Government to monitor progress toward meeting national objectives, should it choose to do so.

CHAPTER 3

HAVE THE POOR AND OTHER DISADVANTAGED GROUPS BEEN SERVED EQUALLY UNDER BLOCK GRANTS AND CATEGORICAL PROGRAMS?

To what degree do block grants focus services on the poor and minority groups? It has been argued that with the passage of time fewer poor and minorities would participate in block grant programs compared with the categorical programs that preceded them. Advocacy groups for the poor and civil rights organizations that believe that federally administered categorical programs are better able to target social welfare assistance have expressed concern about the argument. (Ad Hoc Coalition, 1981, pp. I-6, I-7)

Much of the controversy derives from the philosophy that power should be turned back to State and local governments (as we discussed in chapter 1). From the concerns of advocacy groups, one could predict that under block grants targeting to the poor and minorities would decline over time.

In this chapter, we examine the record of CDBG, CETA, and Title XX Social Services in targeting services to the poor and minority groups. LEAA and PHA are not included in the analysis because they were not intended to be targeted specifically to the poor or minorities.

The targeting objectives of CDBG, CETA, and Title XX are not their only legislative objectives, however. One other objective of block grants is to increase local flexibility and decisionmaking. There are also multiple programmatic goals such as the CDBG objective of aiding in the prevention or elimination of slums or blight. The difficulty these multiple goals pose for evaluation purposes is that they make the standard of comparison unclear. For example, if CDBG has multiple objectives, what percentage of CDBG benefits should be targeted to lower income people? Clearly 100 percent is too high because some funds should be used to combat slums and blight. This limitation must be emphasized or the false conclusion will be reached that all funds should benefit disadvantaged groups. 1/

In the following section, we identify the studies reviewed to assess targeting; then we discuss each of the three programs separately. For each program, we examine the legislative basis for targeting and the targeting data for income and, where available, for race. At the end of the chapter, we review the grants enacted in 1981.

STUDIES USED TO ASSESS TARGETING

In table 7, we list eight basic evaluation studies on block grant targeting. Some comprise a series of reports. In the

Table 7

List of Studies Reported

Block grant	Title and series	Source	Data collection period
CETA	Sixth Annual Report	National Commission for Employment Policy	July 1973-Sept. 1979
	CETA: Manpower Programs Under Local Control	William Mirengoff and Lester Rindler	July 1973-Sept. 1977
CDBG	Community Development Strategies Evaluation	University of Pennsylvania	1970-79
	Targeting Community Development	The Brookings Institution	July 1974-Sept. 1978
	Fourth Annual Community Development Block Grant Report (and others in a series of six)	U.S. Department of Housing and Urban Development	July 1974-Sept. 1980
	Second Year Community Development Block Grant Experience	National Association of Housing and Redevelopment Officials	July 1974-June 1976
	Meeting Application and Review Requirements for Block Grants Under Title I of the Housing and Community Development Act of 1974	U.S. General Accounting Office	July 1974-June 1975
Title XX	Annual Report to the Congress on the Social Security Act (separate report for FY 1979 and and FY 1980)	U.S. Department of Health and Human Services	Oct. 1978-Sept. 1980

table, we have also indicated who conducted each study and the time period for data collection. Our main criterion for selecting studies was that all report quantitative data on income targeting for the block grant programs nationwide. Operationally, that excluded case studies of targeting in one community and one State and studies that did not report quantitative data on targeting. 2/ We made an exception with the University of Pennsylvania review of a sample of neighborhoods in nine cities because the cities are scattered geographically, the research design was well constructed for looking at targeting, and the sample of individuals within each city was large.

CETA TARGETING

The legislative background

Even though the creation of CETA as a block grant shifted employment and training decisions from Federal to State and local officials, its central goal remained the same as its predecessor manpower programs. Its purpose was to "provide job training and employment opportunities." (Pub. L. No. 93-203, sec. 2) Title I authorized the CETA block grant specifically

> "to establish a program to provide comprehensive manpower services throughout the Nation. Such program shall include the development and creation of job opportunities and training, education, and other services needed to enable individuals to secure and retain employment at their maximum capacity." (Pub. L. No. 93-203, sec. 101)

While the block grant allowed prime sponsors considerable latitude in choosing which groups to serve, it required them to give assurances that they would, to the maximum extent feasible, serve those "most in need," including "low-income persons and persons of limited English-speaking ability." (Pub. L. No. 93-203, sec. 105(a)(1); see also Mirengoff and Rindler, 1978, p. 196) Because abuses were perceived in the public service employment titles of CETA, eligibility requirements were tightened in order to focus services on the disadvantaged unemployed. By 1978, eligibility had also been tightened for the block grant program itself, now redesignated as CETA titles IIB and IIC. (GAO, 1982, p. 111)

The standards for assessing the targeting of CETA services to people with low incomes are made more complex by the fact that the legislation intends that there be other recipients of CETA block grant services, including

> "handicapped individuals, persons facing barriers to employment commonly experienced by older workers, and persons of limited English-speaking ability." (Pub. L. No. 95-524, sec. 103(a)(5)(A))

Evaluation results

The two studies on CETA that we examined (see table 7) both used the DOL Management Information System, which collects data each year on the characteristics of participants in CETA programs. It also reported fiscal year 1974 data for the manpower programs that preceded CETA. 3/ In table 8 on the next page, we present a variety of characteristics of participants in the CETA block grant, comparing them to those of participants in the manpower programs that preceded CETA.

Our overall finding is that on the whole block grant participants were only slightly less economically needy than the pre-block grant manpower program participants. The first six characteristics in table 8 for purposes of targeting can be considered indicators of "economic need." Blacks and Spanish-speaking are included in this list because they are disproportionately represented in the total population of economically needy people. There was a drop of 10 percentage points (see column 4) in the percent of participants who were "economically disadvantaged," from 87 percent under the categorical programs in fiscal year 1974 to 77 percent in the first year of CETA. However, other measures fail to show a consistent direction of change in the economic need of participants. The table also shows that the percent of participants who were black and the percent who received AFDC and public assistance increased slightly between fiscal years 1974 and 1975. These findings suggest that on an overall dimension of "economic need" there was only a slight decrease in the economic need of participants under the CETA block grant mechanism compared with the prior categorical manpower programs. Modest changes in clientele of the order detected in the targeting studies may be explained by the fact that the CETA legislation identified other intended recipients.

On the question of minority group targeting, table 8 shows that blacks and the Spanish-speaking were equally likely to be participants under CETA and the prior categorical programs.

Finally, comparing data on CETA participants in fiscal years 1975 and 1979, we find no consistent change. Three of the five available characteristics show less targeting in fiscal 1979 and two show less targeting in fiscal 1975. 4/ (The data are in note 4.) While these data do not support concerns that fewer and fewer disadvantaged citizens would be participating in the CETA program over time, this finding is difficult to interpret because of changes in the national economy and the 1978 CETA amendments.

In summary, when we compare the block grant with the categorical programs that existed before its enactment, we find some decrease in targeting under CETA to the economically needy, although trends are inconsistent across the measures. Overall, targeting to the needy did not change materially between 1975 and 1979. There was little change in targeting of the block grant to

Table 8

Percentage of CETA Block Grant Participants With Selected Characteristics Compared with Pre-CETA Categorical Program Participants a/

Characteristics	Categorical programs FY 1974 (1)	CETA block grant a/ FY 1975 (2)	CETA block grant a/ FY 1977 (3)	Change FY 1974-75 (4)	Change FY 1974-77 (5)
Economically disadvantaged b/	87	77	78	-10	-9
AFDC and public assistance	23	27	26	+4	+3
Black	37	39	35	+2	-2
Spanish-speaking c/	15	13	14	-2	-1
Unemployed	76 d/	62	74	-14 d/	-2 d/
Receiving Unemployment Insurance	5	4	7	-1	+2
Female	42	46	48	+4	+6
Under 22 years old	63	62	52	-1	-11
Less than 12 years of school	66	61	50	-5	-16

Source: Adapted from NCEP, Sixth Annual Report (Washington, D.C.: 1980), pp. 112-13.

a/Title I of CETA as originally enacted.
b/Based on the poverty level as determined by OMB.
c/Estimated.
d/Not available for FY 1974, this figure had to be obtained from a different and possibly noncomparable DOL source. Consequently, comparison of this figure with later CETA statistics should be made only with caution.

black and Spanish-speaking participants compared with the predecessor categorical programs.

CDBG TARGETING

The legislative background

The Community Development Block Grant program for large cities has emphasized social targeting to families of low and moderate incomes. The 1974 legislation cited as its "primary objective"

> "the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income." (Pub. L. No. 93-383, sec. 101(c))

The Act also includes language in three of seven detailed objectives indicating that they are intended principally for people of low and moderate income. In addition, the legislation provides that communities must "give maximum feasible priority to activities which will benefit low- or moderate-income families or aid in the prevention or elimination of slums or blight." (Pub. L. No. 93-383, sec. 104(b)(2))

Although the legislation established social targeting as an important CDBG objective, there were two other equal objectives: (1) "the prevention or elimination of slums or blight" and (2) meeting "other community development needs having a particular urgency." (Pub. L. No. 93-383, sec. 104(b)(2)) While not citing them as primary objectives, the Act refers to other CDBG goals such as "to streamline programs and improve the functioning of agencies" and "the restoration and preservation of properties of special value for historic, architectural, or esthetic reasons." (Pub. L. No. 93-383, sec. 101(b) and (c)) Evaluation results for the targeting of CDBG to low and moderate income groups will, therefore, have to be judged in terms of the multiple objectives of the legislation.

There has been considerable controversy since the Act's passage regarding what constitutes "maximum feasible priority" in targeting activities to benefit low- or moderate-income people. (U.S. Congress, House, 1977, p. 21) The Senate passed but the conference deleted a provision to set a 20 percent limit on expenditures not "of direct and significant benefit to families of low or moderate income, or to areas which are blighted or deteriorating." (Dommel, 1980, p. 12) In the beginning, HUD did not define "maximum feasible priority" quantitatively or instruct its staff on how to determine whether programs under CDBG met the requirement. Two years after CDBG was enacted, we found widely varying interpretations of this requirement among HUD area office staff. (GAO, 1976, p. 10; see also Dommel, 1980, pp. 13-14) The initial regulations did define "low and moderate income,"

considering it income less than or equal to 80 percent of the local standard metropolitan statistical area median income. 5/

During the Carter Administration, HUD worked to increase targeting of CDBG to lower income families. This involved in part initiatives by HUD administrators, demonstrating that changes occur in programs by means other than congressional action. (Dommel, 1980, pp. 14-21)

Evaluation results for income

The only study whose data allow comparisons of CDBG with the earlier categorical programs on income targeting is that conducted by the University of Pennsylvania, but it has two serious limitations. First, it represents a sample of only nine cities. Second, its inquiry was limited to housing rehabilitation, which represents only about 28 percent of all CDBG expenditures. (HUD, 1981, p. 59) However, housing rehabilitation seems to be a typical CDBG activity in terms of the degree to which it targets benefits to low and moderate income census tracts. This is demonstrated by 1979 data that show that two major activity groups had more targeting while three had less targeting to low and moderate income tracts than the "housing rehabilitation and related activities" group. (HUD, 1981, pp. 52-53, 59, A94) The issue is still unresolved and it cannot be assured that the Pennsylvania results represent all CDBG activities nationwide.

Keeping these limitations in mind, we can see in table 9 (comparing columns 1 and 3) that CDBG housing rehabilitation aid was more targeted to low and moderate income recipients than earlier categorical programs in six of the seven cities for which comparisons could be made. (In Pittsburgh, the numbers are essentially the same.) A median of 96 percent of households receiving CDBG assistance had low and moderate incomes compared with 78 percent for the earlier categorical programs. The comparison group of 1970-74 categoricals (column 3) represents rehabilitations financed under other public funding sources in that time period. 6/ "Low and moderate income" is defined according to HUD regulations discussed above. 7/

Table 9 also allows the comparison of CDBG with categorical programs contemporaneous with CDBG. This group includes rehabilitation aid under section 312 of the 1964 Housing Act and numerous State and local programs in six of the nine cities. 8/ Comparing the first and second columns of the table thus shows that CDBG was more targeted to low and moderate income recipients in all seven cities for which the comparison can be made. The median of 97 percent of households that received CDBG aid had low and moderate incomes compared with 70 percent for the contemporaneous categorical programs.

Four other CDBG studies we examined included larger samples of communities and a cross-section of activities rather than housing rehabilitation alone. Their weaknesses are not present in the

Table 9

Percentage of Recipient Households with Low and Moderate Income by Funding Source

	CDBG 1975-79 (1)	Categoricals 1975-79 (2)	Categoricals 1970-74 (3)
Birmingham	94	--	83
Corpus Christi	100	93	78
Denver	99	70	--
Memphis	97	87	91
New Haven	79	51	63
Pittsburgh	71	62	73
San Francisco	--	--	--
St. Paul	96	89	78
Wichita	100	38	95

Median
CDBG versus Categoricals 1970-74
CDBG 96%
Categoricals 78

CDBG versus Categoricals 1975-79
CDBG 97%
Categoricals 70

Source: Stephen Gale et al., "Community Development Strategies Evaluation: Social Targeting," draft report, University of Pennsylvania, Philadelphia, October 1980, table 4.4.

University of Pennsylvania study; all were based on planned benefits rather than actual benefits and all lacked any direct measure of the income of the beneficiaries. In appendix II, we discuss the methodological differences between the CDBG studies. In developing another report on determining who benefits from the community development block grant programs, we are able to cite some improvements that could be made in CDBG benefit data and reporting processes. 9/

In table 10, on the next page, we compare the University of Pennsylvania findings with those of the four other studies. Excluding the University of Pennsylvania study, we estimate that from 54 to 66 percent of CDBG benefits are allocated to low and moderate income persons.

Change over time in targeting for the CDBG programs can be examined in the Brookings and HUD studies as shown in table 10.

Table 10

Percentage of CDBG Benefits Allocated to Low and Moderate Income Groups by Study and Fiscal Year

Study	1975	1976	1977	1978
The Brookings Institution a/	54	56	60	62
National Association of Housing and Urban Development Officials	59	55	--	--
University of Pennsylvania b/	----------	(median 96)		----------
U.S. Department of Housing and Urban Development	64	62	61	66
U.S. General Accounting Office	56	--	--	--

Source: Brookings: Paul R. Dommel et al., Targeting Community Development (Washington, D.C.: U.S. Department of Housing and Urban Development, 1980), p. 161. NAHRO: Robert L. Ginsburg, "Second Year Community Development Block Grant Experience: A Summary of Findings of the NAHRO Community Development Monitoring Project," Journal of Housing, February 1977, pp. 81-82. University of Pennsylvania: Stephen Gale et al., "Community Development Strategies Evaluation: Social Targeting," draft report, University of Pennsylvania, Philadelphia, 1980, table 4.4. HUD: HUD, Fourth Annual Community Development Block Grant Report (Washington, D.C.: 1979), p. II-7. GAO: GAO, Meeting Application and Review Requirements for Block Grants Under Title I of the Housing and Community Development Act of 1974, CED-76-106 (Washington, D.C.: 1976), p. 13.

a/Data for later years are available but not reported here in order to make the time periods of the different data collections more comparable.

b/Not reported separately by fiscal year. Includes only housing rehabilitation funded wholly by CDBG in fiscal years 1975-78.

The Brookings study shows that targeting increased from 1975 to 1978 while the HUD findings show essentially no change for two years but an increase by 1978. These increases are apparently attributable to the policy changes introduced in the Carter Administration, as we noted earlier. Going beyond the period covered by the table, the Brookings research shows a slight decrease in targeting in 1979 and 1980 while the HUD study finds a slight increase. 10/ In summary, CDBG data show that participation by the poor increased over time under the block grant mechanism but did so presumably because of greater Federal influence.

In our 1981 report on CDBG, we found that some cities provided assistance under this grant for nonessential or cosmetic home repairs. One city was cited where 31 of the 200 most recent CDBG-aided loans (or 15.5 percent) went to people whose annual incomes exceeded $30,000. (GAO, 1981a, p. 20) While this represents only a case study of rehabilitation loans in one city, the findings are not inconsistent with findings in the studies in table 10. They estimate that up to 34-46 percent of CDBG resources (excluding the University of Pennsylvania results) benefit entire communities rather than any particular income group. Our 1981 study included site visits but was not intended to be a systematic study of the allocation of CDBG benefits to income groups. Neither it nor the other studies we have discussed above suggest widespread targeting problems with CDBG.

In summary, the University of Pennsylvania analysis shows that 96 percent of households aided in residential rehabilitation by CDBG had low and moderate incomes compared with 78 percent for the categorical programs that preceded CDBG. Furthermore, 97 percent of CDBG-aided households and 70 percent of current categorically aided households had low and moderate incomes. This study concluded that

> "the proportion of CDBG rehabilitation assistance reaching targeted households equals or exceeds the proportions of other rehabilitation programs that predate or are contemporaneous with CDBG." 11/

If the University of Pennsylvania research is not considered, estimates derived from the other studies of all CDBG activities suggest that 54 to 66 percent of CDBG benefits were targeted to people with low and moderate incomes. Analysis of CDBG trends over time suggests a slight increase in targeting rather than the cumulative reduction of targeting that some observers have feared.

Evaluation results for race

The CDBG legislation has no provisions for targeting benefits to minority groups but, because minorities are more likely than nonminority groups to have low incomes and to live in substandard housing, the extent to which they benefit from CDBG is germane to the program's objectives. The University of Pennsylvania study collected data on race in a survey of current residents of

Table 11

Percentage of Population That Is Minority and Percentage of Recipient Households That Are Minority by Funding Source

	Minority population 1970 (1)	CDBG 1975-78 (2)	Categoricals 1975-78 (3)	Categoricals 1970-74 (4)
Birmingham	47	31	--	33
Corpus Christi	43	100	92	91
Memphis	44	93	80	98
New Haven	31	37	65	59
Wichita	14	55	14	30

Source: Stephen Gale et al., "Community Development Strategies Evaluation: Social Targeting," draft report, University of Pennsylvania, Philadelphia, October 1980, tables 4.10 and 4.12.

CDBG-aided dwelling units. In table 11, we present data on targeting to minority groups for the five cities for which the data were sufficient. (Gale, 1980, p. 48)

Comparing the block grant recipients in 1975-78 with the earlier categorical grant recipients (that is, columns 2 and 4) shows no consistent pattern of difference in the allocation of rehabilitation assistance to minority groups. Minorities are served equally when compared with the earlier categorical grants. Using categorical programs in 1975-78 for comparison (that is, columns 2 and 3) produces the same results. 12/

In short, the results on racial targeting based on the University of Pennsylvania study are limited to only five cities and show no strong patterns. However, the findings of that study also show that the proportion of minority group members receiving CDBG benefits in four of the five cities is higher than the proportion of minority group members in the overall population (comparing columns 1 and 2). Birmingham, Alabama, is the only city in which the percentage of minority recipients--under both categorical and block grants--is smaller than the minority population.

Targeting and the CDBG allocation formula

In this concluding section, we use the Brookings targeting data to illustrate the impact of the legislative formula that allocates block grant funds. For locally operated programs such as CDBG, if the formula allocates more funds to communities where most of the lower income people live, greater targeting to the poor

Table 12

Percentage of CDBG Funds Allocated to Low and Moderate Income Groups by Type of City, Level of Community Distress, and Program Year

City type and distress level	Number of jurisdictions	1979	1980
Central cities			
Low distress	10	61	61
High distress	19	63	64
Satellite cities			
Low distress	8	52	53
High distress	4	60	55
Total			
Low distress	18	55	57
High distress	23	62	62

Source: Paul Dommel, et al., "Implementing Community Development," draft manuscript, U.S. Department of Housing and Urban Development, Washington, D.C., 1982, p. 104.

is likely to occur. Table 12 presents data to illustrate the differing record of cities in targeting CDBG benefits. Distress is measured by an index combining poverty levels, age of housing, and population change.

The table shows that "the more distressed communities tended to allocate a higher level of benefits to lower income groups than did better-off communities in the sample." (Dommel, 1982, p. 102) Also, the targeting is measurably higher in central cities than in satellite cities.

While a complete explanation of these differences would include the influence of methodological factors, the results show differing performances in targeting of CDBG benefits to low and moderate income persons. Satellite cities and cities with low distress achieve less targeting than central cities and cities with high distress. Suburban jurisdictions appeared to be susceptible to more fluctuation in targeting and their programs were more easily diverted from the social targeting objective of the law. (Dommel, 1982, p. 110)

These results show in part the impact of the CDBG allocation formula. If the formula were structured so as to exclude from CDBG eligibility some suburban and low distress communities, it

is likely that targeting CDBG funds to low and moderate income persons would increase. 13/

Of course, many elements must be weighed in constructing any allocation formula. When the law is targeting benefits to people with low and moderate incomes, the allocation formula it specifies will be critical in achieving targeting.

TITLE XX TARGETING

The legislative background

The Title XX Social Services program was directed largely toward the poor. Title XX provided that

> "States must expend an amount equal to at least 50 percent of the Federal share of their expenditures for persons who are eligible for Aid to Families with Dependent Children (AFDC), Supplementary Security Income (SSI), Medicaid and for family members or other persons whose needs are taken into account in determining the eligibility of an AFDC or SSI recipient." (HHS, 1981, p. 2)

This 50 percent requirement was eliminated in the Social Services block grant.

People became eligible for Title XX services in one of three ways:

1. Income eligibles. States determined how poor people had to be in order to receive services. The highest income level a State could serve and receive Federal reimbursement for was 115 percent of the State median income, adjusted for family size. Eligibility criteria could vary for different types of service but could not exceed the 115 percent limitation. The Omnibus Budget Reconciliation Act of 1981 removed income eligibility limits, although the States may provide their own income limitations.

2. Income maintenance recipients. States could provide Title XX social services to supplement cash assistance provided under AFDC and SSI. Title XX provided services while AFDC and SSI provided cash assistance. Categories of certain persons--such as migrant workers, drug addicts, and runaways--could also be served without an individual means test.

3. Services without regard to income. People needing three services could be aided whether their income was low or high--protective services for children or adults, information and referral, and family planning. (HHS, 1981, pp. 3-4)

Evaluation results for income

Even though Title XX eligibility was based primarily on income, data on the income of recipients are not available. In fact, lack of adequate data has been a problem with Title XX since its inception. (Ad Hoc Coalition, 1981, p. II-8) Even so, data from the Social Services Reporting Requirements (SSRR) allow for some analysis of the targeting issue.

One evaluation of the SSRR data on the eligibility of Title XX recipients indicated reason for some confidence in this information. The eligibility of people who are categorically eligible may be verified through Medicaid cards or local welfare agency files. There is, however, greater variability in procedures for those who claim eligibility based on income. Some States simply asked applicants to sign declarations while others went so far as to verify income through the Social Security office. Providers can jeopardize fund reimbursement with errors in eligibility determinations, which seemed to make most service providers cautious. (One America, 1980, pp. 45-46)

Weaknesses in the SSRR data, however, make the counts of services and recipients not totally valid for national summaries. The validity of national statistics is reduced because many States lump all clients into one recipient category (primary recipients) and some States use their own classifications. 14/

With these limitations, data on the number and percent of primary recipients of Title XX services by type of eligibility for fiscal year 1979 were

Income	2,894,654	40%
Income maintenance (AFDC, SSI)	2,808,648	39
Without regard to income	1,508,832	21
Total	7,212,134	100%

These figures show that 79 percent of the primary recipients were eligible by virtue of having low incomes--40 percent for income eligibles plus 39 percent for income maintenance recipients. This 79 percent targeting estimate includes some people with incomes up to 115 percent of the State median income adjusted for family size. This was true, however, in only 16 States, only 2 of which provided all or even most of their services at maximum levels. (HHS, 1980, p. 14, and 1981, p. 10)

The category "without regard to income" may include many who would have met the eligibility criteria had they been applied. Many in this category also received information and referral services that have very low unit costs, thereby not detracting significantly from the overall targeting achieved under the program. In short, although services provided "without regard to income" increased from 13 percent to 21 percent of the total primary recipients between fiscal years 1976 and 1979, the actual share of

social services the needy received appears to have been greater than these figures suggest.

In summary, the data show that roughly 79 percent of the primary recipients of Title XX Social Services obtained services because of their low incomes. The remainder received legally authorized protective services, information and referral, and family planning assistance without regard to income.

TARGETING UNDER THE 1981 BLOCK GRANTS

The Omnibus Budget Reconciliation Act, as we discussed in chapter 2, contains more targeting provisions than the enabling legislation of the pre-1981 block grants. Six of the nine block grants enacted in 1981 provide services to people with low incomes as well as other categories of recipients. The Social Services block grant, in contrast, relaxes some of the targeting provisions of the older Title XX Social Services program.

Three of the six new grants with low income targeting provisions prescribe specific income limitations. First, the Low Income Home Energy Assistance block grant generally restricts eligibility to households whose incomes are less than 150 percent of the State poverty level or 60 percent of the State median income, as well as those receiving AFDC, SSI, food stamps, or Veterans' and Survivors' pension benefits. Next, the Maternal and Child Health grant provides health assessments, follow-up and diagnostic services, treatments, immunizations, and other health services to mothers who have children and whose incomes are below the nonfarm official poverty line, although other services authorized under the block grant are not limited to this class of recipient. Finally, the Community Services grant provides for

> "a range of services and activities having a measurable and potentially major impact on the causes of poverty in the community or those areas of the community where poverty is a particularly acute problem [and] . . . activities designed to assist low income participants . . . ." (Pub. L. No. 97-35, sec. 675)

The legislation defines the poverty line as a criterion of eligibility in community services programs.

The three other block grants with targeting objectives do not define the eligibility of individual recipients as specifically. The Primary Care grant aids "medically underserved" populations, defined by such criteria as ability to pay, infant mortality rates, and the availability of health professionals. The Elementary and Secondary Education block grant targets services to the "educationally deprived," which includes people with low incomes and migrants as well as handicapped children. Under the new CDBG small cities block grant, States must give "maximum feasible priority" to activities that benefit low and moderate

income families or aid in the prevention of slums and blight but in some cases may channel funds away from these activities to meet other urgent community needs.

The Omnibus Budget Reconciliation Act contains definitions of target populations but generally does not link these provisions to mechanisms that States might use to achieve targeting, such as sub-State allocation formulas. Chapter 2 of the Elementary and Secondary Education grant is one of the few block grants enacted in 1981 to address the connection between distribution formulas and targeting. This legislation specifies that States will distribute funds to local education agencies according to their relative enrollments, with these funds adjusted to

> "provide higher per pupil allocations to local education agencies which have the greatest numbers or percentages of children whose education imposes a higher than average cost per child, such as
> (1) children from low-income families,
> (2) children living in economically depressed urban and rural areas, and
> (3) children living in sparsely populated areas." (Pub. L. No. 97-35, sec. 565(a))

However, there is no requirement that the local education agencies use these funds for these children.

Three grants may make changes in their distribution formulas to facilitate targeting. The Alcohol, Drug Abuse, and Mental Health, Maternal and Child Health, and Preventive Health and Health Services grants require the Secretary of HHS to report to the Congress on alternative distribution formulas within one year after enactment of the Omnibus Reconciliation Act. The Act instructs the Secretary to take into account State financial resources, which are likely to be influenced by the size of a State's low-income population, and the number of low-income mothers and children.

Provisions requiring grantees to fund previously supported projects are another mechanism that may affect targeting in the short run, although not always in the same direction. Programs that served low-income clients before a grant took effect are likely to continue to serve them through organization inertia. For example, the Primary Care and Community Services grants require grantees to maintain subgrantees' pre-block grant funding levels for several fiscal years after the block grant's effective date. Primary Care specifies that grantees are to receive 100 percent of the previous fiscal year's funding in the first year; grantees under Community Services are to receive 90 percent. The Preventive Health grant and the Alcohol, Drug Abuse, and Mental Health grant also provide that subgrantees are to continue to receive funding in the first fiscal year of the grant but do not specify the amount.

One long-run implication of these differences is that as the States establish their own criteria for the form and content of annual reports, efforts to study targeting nationwide will be impaired. In the past, data reported by grantees tended to be the primary source for annual reports to the Congress and, thus, the bases for determining social targeting. In the future, unless the States succeed in establishing comparable data collection and reporting procedures in all relevant topical areas, the quality and scope of targeting data will vary from State to State. In the absence of uniform data, it may be difficult to determine the amount of targeting on a nationwide basis under these block grants.

SUMMARY

CDBG, CETA, and Title XX all have the objective of focusing services on the economically needy. A review of the data suggests that they in fact targeted services to their designated groups as shown below:

--three of every four participants in CETA were economically disadvantaged,

--54 to 66 percent or more of CDBG benefits were targeted to people of low and moderate incomes, and

--about 79 percent of the primary recipients of Title XX Social Services were eligible because of their low incomes.

The failure to reach 100 percent targeting to the poor may indicate multiple legislative objectives rather than program deficiencies, and therefore these figures are difficult to interpret.

Another approach to studying targeting, possible despite some methodological problems with the data, was to compare CETA and CDBG to their predecessor categorical programs. Thus,

--CETA showed a slight decrease in targeting to the poor under the block grant but, in general, the characteristics of the people served were similar, and

--CDBG rehabilitation assistance showed better targeting to low and moderate income groups under the block grant in six of seven cities.

CDBG was targeted more to lower income recipients compared to selected current categorical programs. While limited to only seven cities and examining only one component of the CDBG program, the comparisons of housing rehabilitation assistance show that a median of 97 percent of recipients of CDBG assistance had low and moderate incomes compared with 70 percent under current categorical programs.

The data available also allowed us to examine change in order to determine whether or not targeting to the poor diminished. Data on income targeting for CETA and CDBG suggest no such decline in benefits to the poor. This could be interpreted as a strength of block grants or as a result of their recategorization.

With regard to targeting by race and ethnicity, there were no consistent differences between the block grants and the categorical grants.

Some of the same CDBG data illustrate the impact of the allocation formula on eventual targeting to low and moderate income groups. We found that data from 1979 and 1980 show that satellite cities and cities with low distress achieved less targeting of CDBG funds than central cities and high distress cities.

The review of targeting for these three programs indicates that people with low incomes and people in minority groups have received services about equally often under block and categorical grants. The reasons for these findings are less clear. Perhaps the existing clientele from the prior categorical programs help prevent dilution of targeting. Also, statutory requirements, imposed either by the State or by the Federal Government designating who is to be served, whether generally or specifically, may have contributed to the targeting we have observed. There were numerous targeting requirements associated with the CDBG, CETA, and Title XX programs.

Will the 1981 block grants yield similar findings? Some factors are common to the earlier grants. Six of the nine new block grants have the objective of serving a disadvantaged clientele and specify in some detail who is to be served. One even incorporates targeting in its distribution formula. In the short run, continuing to fund certain subgrantees at levels comparable to those under the categorical programs may have mixed effects on targeting. The programs that previously served low-income populations may, through inertia, continue to do so.

A major difference between the old and the new block grants is the more prominent role of the States in 1982. States have had power in the early block grants, but primary power was held by the local and Federal governments under CDBG and CETA (except in balance-of-State areas).

The ability to draw conclusions at a national level about targeting under the new block grants requires comparable national data. Although some voluntary efforts are under way, Federal agencies are not requiring that uniform data be collected on the 1981 block grants. In the absence of uniform data, it may be difficult to determine the amount of targeting on a nationwide basis under these block grants.

CHAPTER 4

HAVE THERE BEEN SAVINGS IN ADMINISTRATIVE COSTS UNDER BLOCK GRANTS?

The earlier and recently enacted block grants have fewer separate programs and Federal requirements than predecessor categorical grants. One reason given for creating block grants is that they impose a smaller administrative burden than the categorical grant-in-aid system. State and local administrators and researchers have long argued that categorical grants entail excessive paperwork, administrative complexity, and unnecessary administrative costs. (ACIR, 1978, pp. 4-5) By doing away with these constraints, block grants are expected to cost less for the grantees to administer. 1/

Debate in 1981 on block grants highlighted the issue of their administrative cost. The Administration's initial proposals to create education, health, and social service block grants asserted that the administrative savings to be achieved by consolidating categorical programs would compensate for a 20 to 25 percent cut in Federal funding:

> "Because the new block grant legislation would allow significant savings in program overhead and more efficient service delivery due to the elimination of overlapping service responsibilities, this funding change need not result in a reduction of services." (The President's, 1981, p. 7-7)

Other supporters of the 1981 block grant proposals were less optimistic in their estimates of cost savings, but many stated that fewer layers of administration, better State and local coordination of services, less overlapping in Federal regulations, less federally imposed paperwork, and better targeting of services would lead to cost savings. (U.S. Congress, Joint, 1981, pp. 106, 155, 175, 248)

Six of the 1981 block grants set ceilings on the percentage of State administrative costs that can be financed with Federal dollars, and one prohibited the use of block grant funds for administrative expenses. The ceilings range from 2 percent to 20 percent, with 10 percent the most common. Local officials had called for a uniform 10 percent cap on State administrative costs, hoping to lessen the effect of Federal budget reductions and to insure that the bulk of Federal funds would be available for services. Administration officials, however, had expressed some reluctance to establish a uniform ceiling for health block grants because of variations in the administrative costs of the categorical programs intended for consolidation. (U.S. Congress, Joint, 1981, p. 145, and Senate, 1981, p. 70)

In this chapter, we have tried to determine whether the consolidation of categorical programs into block grants reduced State and local administrative costs for the five block grants established before 1981. To do this, we tried to answer two specific questions:

--Did the earlier consolidations of categorical programs into block grants reduce administrative costs?

--Do block grants generally cost less to administer than categoricals?

In light of the Omnibus Budget Reconciliation Act's general reliance on ceilings on administrative costs, we also tried to determine whether costs are contained when fixed-percentage caps are imposed. Looking at the older block grants, we asked these specific questions:

--Did caps on the earlier block grants keep administrative costs down? 2/

--What other features of block grant programs affect administrative costs?

DID BLOCK GRANTS BEFORE 1981 REDUCE ADMINISTRATIVE COSTS?

Determining whether administrative costs were reduced by the creation of the early block grants is a complicated methodological problem for which the data are limited and of questionable reliability. 3/ We identified fewer than 10 reports that focus on administrative costs before and after program consolidation or on interstate differences in administrative costs between block and categorical grants. The small number of studies and the weaknesses in the data led us to review annual program reports, budget documents, data from Federal reporting systems, and studies by Federal agencies and to interview Federal officials in an effort to construct additional national estimates of administrative costs.

In developing reliable estimates of administrative costs, we found that some of the methodological weaknesses of the earlier studies may be repeated in all the available national data. (See appendix III for our discussion of these problems.) Therefore, we adopted a conservative approach in interpreting the data. Rather than place great weight on any single estimate, we tried to see whether two general patterns are discernible across the entire set of estimates:

--earlier consolidations consistently reducing administrative costs, even though actual reductions might vary from grant to grant, and

--costs to grantees for administering block grants being consistently less than costs to grantees for administering categoricals.

Has consolidating categoricals into block grants reduced costs?

Four of the five original block grants--CDBG, CETA, PHA, and Title XX--were created by consolidating former categorical grants, providing in theory an opportunity to examine the effect of block grant consolidations on administrative costs. In practice, however, these comparisons are not as informative as might be expected. The block grants bore only a slight resemblance to their predecessors. PHA, for example, permitted grantees to fund a wider variety of health services, while CETA required prime sponsors to undertake planning and monitoring functions that had not been part of their earlier responsibilities. These and other changes may have had independent effects on administrative costs, but the data do not exist in a form that makes it possible to isolate them.

What interstate data are available on administrative costs before and after consolidation do not exhibit a consistent pattern. In case studies of the PHA program in three States, charges to administration were relatively unchanged in two States by fiscal year 1971 and decreased in the third State by fiscal year 1972 compared to fiscal year 1967, the last year of categorical aid. 4/ (Greenberg, 1981, pp. 158-76) 5/ According to a report on CETA by the National Research Council, administrative costs at State and local levels increased from an estimated average of 11 percent of program funds spent to administer pre-CETA programs in fiscal year 1974 to 16.4 percent of funds to administer CETA programs in fiscal year 1976. (Mirengoff and Rindler, 1978, p. 111) 6/ No studies of costs for before and after Title XX consolidation are available.

In a HUD survey of all 880 entitlement cities under CDBG, local administrators' reports indicate that consolidation may have eased the administrative burden on grantees at first. Among respondents in the HUD survey, the majority of whom had had experience with the pre-CDBG categorical grants, 41 percent perceived a decrease, 31 percent perceived no change, and 28 percent perceived an increase in application requirements in the first year of the CDBG program. (HUD, 1975, p. 4) More than 60 percent of cities that had participated in six or more categorical programs reported that CDBG decreased Federal red tape. 7/ When the program was fully implemented and into its second year, however, reductions in paperwork were reported less frequently by local administrators. According to a HUD survey, after a year of experience with CDBG, 52 percent of communities that had participated in categorical programs reported more bookkeeping and paperwork requirements under CDBG than had been their experience under the categorical programs. (HUD, 1976, p. 162) Although the data are suggestive, they should be interpreted cautiously,

inasmuch as opinion may be influenced by the respondents' expectations of reductions in costs, their knowledge of the categorical programs that were consolidated, and their experiences in the first year of the block grant.

The data do not show a persistent trend of a diminishing administrative burden. The costs and the burden did apparently lessen for the CDBG program, but there is also evidence that the consolidations had little effect on PHA and may have increased the administrative costs and burden for CETA. Differences in program activities before and after consolidation prevent us from concluding that consolidation did not reduce administrative costs. However, to mask a sizable reduction in administrative costs, the distortions other factors might have introduced in the direction or the magnitude of reported changes would have had to have been very large and would have had to underestimate categorical grant costs or overestimate block grant costs consistently.

Do block grants cost less to administer than categoricals?

To determine whether there have been administrative cost savings under block grants, we analyzed the results of our work in this area in 1978 and agency estimates of administrative expenses under various categorical and block grants.

GAO's 1978 study of administrative costs

In our 1978 study of 2 block grants and 70 categorical programs, we found that on the average block grants were more costly to administer than categoricals. 8/ In that study, we examined the proportion of total combined fiscal year 1975 Federal and non-Federal program funds spent for administering CETA and LEAA and 70 categorical programs. The 70 categorical programs spanned eight different functions, although education and research programs made up about 70 percent of the sample. The study estimates showed that an average of 10.9 percent of program funds was spent to administer CETA and LEAA, compared with an average of 6.2 percent of program funds for categorical programs. The block grant percentages stood within the range of estimates for categorical grants (from 0.3 percent to 28.3 percent), but 55 of the 70 categorical grants cost proportionally less to administer than either CETA or LEAA. (GAO, 1978d, p. 17)

These findings must be interpreted with caution. Variations across sites and programs were so great that the four percentage points of difference between block grants and categorical programs must be considered slight. Moreover, factors other than type of mechanism, such as program size and number of administrative levels, might have been in operation. If the granting mechanism acts independently of other factors that vary across locations and programs, it is difficult to discern in these data.

Other estimates of costs to administer Federal assistance programs

In table 13, we present estimates of the costs to grantees and certain subgrantees to administer categorical grants from data taken from annual program reports, budget documents, Federal reporting systems, and studies by Federal agencies. According

Table 13

Percentage State and Local Costs to Administer Categorical Programs a/

	Cost	Fiscal year
GSA study b/		
School lunch c/	8.9	1973
Title I (Education)	19.6	1973
Work Incentive Program	30.1	1973
Headstart	33.3	1973
GAO study		
Maternal and Child Health d/	10.4	1978
Sudden Infant Death Syndrome e/	13.0	1979
Education programs f/	Range 25-33	1980

Source: GSA, Administrative Costs in Federally-Aided Domestic Programs (Washington, D.C.: 1975); GAO, Better Management and More Resources Needed to Strengthen Federal Efforts to Improve Pregnancy Outcome, HRD-80-24 (Washington, D.C.: 1980), p. 153, and The Sudden Infant Death Syndrome Program Helps Families but Needs Improvement, HRD-81-25 (Washington, D.C.: 1981), pp. 81-82; K. Baker, "Administrative Costs," draft paper, U.S. Department of Education, Washington, D.C. 1981.

a/Reported Federal funds for administration divided by total Federal funds for administration and direct services received by grantees and certain subgrantees.

b/Includes actual expenditures and budgeted expenditures adjusted to approximate actual expenditures; individual cost estimates are based on separate samples that differ in size and sampling procedure.

c/It is unclear whether these estimates include non-Federal funds.

d/Based on budgeted expenditures for 49 States and the District of Columbia as reported in a questionnaire.

e/Based on budgeted expenditures for indirect costs for a universe of 37 projects.

f/Based on budgeted expenditures synthesized from several sources.

to our earlier studies of health and welfare programs and studies by GSA and the U.S. Department of Education, State and local costs to administer categorical programs ranged between 8.9 percent and 33.3 percent of budgeted Federal program funds. The three sets of estimates overlap. Our estimates (10.4 percent and 13 percent) are toward the lower end of the range in GSA's study, while the Department of Education's estimates (at 25 to 33 percent) are toward its upper end. 9/

In table 14, we summarize grantee and certain subgrantee costs, as reported to administering Federal agencies, for two of the five block grants. 10/ Some of the data in tables 13 and 14 are not strictly comparable, since the data in table 14 represent actual as well as budgeted expenditures and only one includes State and local costs. Failure to include local costs would lead to underestimates of costs. Moreover, changes in definitions of allowable administrative expenses and reporting biases for individual grants may have inflated or deflated the figures artificially (as we discuss in appendix III). Nevertheless, table 14 indicates that the average cost of administering

Table 14

Percentage Grantees' Charges to Administration Under Block Grants by Fiscal Year a/

	1975	1976	1977	1978	1979	1980	Mean
CDBG b/	12.0	12.1	12.8	13.8	12.0	13.1	12.6
CETA c/	17.3	16.2	16.4	15.5	17.8	19.7	17.4

a/Administrative charges include direct and indirect charges to administration for personnel, travel, overhead, planning, evaluation, monitoring, and recordkeeping.

b/Data represent grantees' budgeted expenditures for planning, management, and general administration under the CDBG entitlement program; they were taken from HUD-approved grantees' applications for funding, and do not represent actual expenditures for administration. Under later HUD regulations, certain planning activities were charged separately. For consistency, we have included these charges in our definition of administration. However, certain types of administrative cost are not reported in this total. For example, certain expenditures in housing rehabilitation, such as for lawyers' and appraisers' fees, are considered to be service delivery expenses.

c/Data represent grantees' and subgrantees' expenditures and were derived from the DOL Employment and Training Administration's Financial Status Report, as reported through the Regional Automated System.

block grants at State and local levels (12.6 to 17.4 percent) stands within the range of expenditures estimated for categorical programs (8.9 to 33.3 percent) although at the lower end of that range.

The national data on administrative expenditures funded through PHA indicate that State charges to administration averaged 9.9 percent between fiscal year 1975 and 1980. 11/ As with the other figures, this is within the range reported for categorical programs. Case studies of the programs, however, suggest that the costs of applying for, allocating, and monitoring the PHA grant were as little as 2 to 3 percent. (ACIR, 1977c, pp. 150, 192) Because the PHA legislation did not restrict administrative expenditures to a set of statutorily prescribed services, State health departments funded a variety of administrative activities with PHA money.

Categorical and block grant administrative costs compared across data sets

In 1978, we found only a marginal difference between average State and local costs for administering block grants and for administering categoricals, with block grants costing slightly more. Other estimates based on agency documents suggest that State and local administrative costs were generally less for the block grants. It is impossible to reconcile this difference because of differences in the studies' scope and methodology. For example, in 1978 we reported expenditures of both Federal and non-Federal funds but the other agencies considered only Federal funds. Our estimates excluded one level of local administration (project operators) and included Federal agency costs; the estimates of the other agencies were confined to State and local administrative units. Each of these items may influence the total reported costs. Federal funds are more likely to support administrative activities, and local project operators' costs may be lower than those of administrative units at other levels (GAO, 1978d, p. 17; Baker, 1981a, p. 1), but the data were not broken down in a way that makes it possible to determine how such factors contribute to the discrepancy in the two data sets.

Explanations for the patterns in the data

The data do not reveal a consistent, sizable difference that can be attributed solely to the effects of the granting mechanism. Consolidating the categorical programs did not consistently reduce administrative costs. Even the lowest estimates of administrative costs for block grants are within the range of estimates for categorical grants.

The absence of a sizable reduction in administrative costs under block grants may be accounted for in a number of ways.

First, it may be very difficult to distinguish the effect of the grant mechanism from the effects of other factors. The number of administrative units and the dollar costs of the program may affect administrative costs independently. (GAO, 1978d, pp. 15-16; GSA, 1975, apps. 2-6) CDBG and CETA had heavy planning and reporting requirements, which may have also masked the effect of the grant mechanism itself. Moreover, methodological weaknesses in the data interfere with the ability to document trends. Many are common to most of the data sources we reviewed (see appendix III). It is unlikely that all obscured differences between block grants and categorical grants, although some may have.

Beyond this, there is some question about whether administrative costs adequately reflect a program's actual administrative burden. It is conceivable that the block grants enacted before 1981 affected aspects of administrative burden that were not captured in the reported cost measures. Thus, the data neither eliminate the possibility nor offer persuasive evidence that the earlier block grants reduced administrative costs and burdens.

HOW WILL FIXED PERCENTAGE CAPS AFFECT ADMINISTRATIVE COSTS?

The Congress capped costs in six of the nine block grants enacted in 1981, prohibited the use of block grant funds for administration in a seventh, and recommended a ceiling on costs in an eighth, as we show in table 15 on the next page. Except for the Elementary and Secondary Education grants, most of the caps are 10 percent or less, and all apply only to State administrative charges. They do not preclude the States from using their own or other Federal funds in administering the block grants. Data for State administrative costs for the earlier block grants are not available in a form that permits direct comparison to these ceilings. However, caps of 10 to 20 percent placed solely on State administrative costs may be generous, considering that the combined State and local expenses of the CETA grants ranged from 15.5 to 19.7 percent and the CDBG grantees' costs averaged 12.6 percent.

Early experience with administrative caps

The experience of CDBG and CETA does not shed much light on the effects of fixed-percentage caps. Early CETA regulations fixed combined grantee and subgrantee administrative expenditures at levels at a maximum of 20 percent of Federal funds. Amendments in 1978 kept the ceiling intact. Amendments in 1978 to the HUD-Independent Agency appropriations legislation included a 20 percent ceiling on CDBG grantee expenditures.

Administrative costs for CDBG and CETA did not exceed 20 percent before or after caps were imposed (as we saw in table 14).

Table 15

Amounts of State Administrative Costs Funded Through 1981 Block Grants a/

Community Development (small cities)	2%
Elementary and Secondary Education	up to 20% of ch. 2 costs b/
Preventive Health and Health Services	up to 10%
Alcohol and Drug Abuse and Mental Health	up to 10%
Primary Care	0 c/
Maternal and Child Health	up to 7.5% d/
Community Services	up to 5%
Social Services	none specified
Low Income Home Energy Assistance	up to 10%

Source: Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, and United States Congress, House of Representatives, Omnibus Budget Reconciliation Act of 1981. Conference Report 97-208, Book 2 (Washington, D.C.: U.S. Government Printing Office, 1981), p. 790.

a/This ceiling includes both administrative and programmatic costs at the State level.
b/The legislation provides that no more than $150,000 per State can be spent in FY 1982 for planning.
c/This figure is recommended in the conference report on the Omnibus Budget Reconciliation Act but was not included in the program's enabling legislation.

The CETA figures increased after fiscal year 1978 but changes in program requirements may have been responsible for some of this rise. The CDBG data are similarly inconclusive, since the definition of administrative expenses changed when the cap was imposed.

Additional data on CETA administrative costs, however, raise the possibility that some of the actual cost of administration may have been reported as service delivery activities. Classroom "position" or staff costs stayed relatively stable between fiscal years 1975 and 1978 but increased dramatically in fiscal 1979, the year that many changes in planning and reporting responsibilities took effect. Coincidentally, grantee and subgrantee costs approached the ceiling for the first time in fiscal years 1979 and 1980. It has not been possible to determine whether this was causal rather than merely coincidental.

The CETA experience may indicate a larger issue: how a cap affects administrative costs may depend on its relationship to the true administrative burden. For example, if a cap is higher than the actual administrative costs, the liberal ceiling may encourage grantees to increase expenditures up to that ceiling. If the cap is lower than the actual costs, grantees may be encouraged to report administrative expenses in some other category.

Other effects on administrative costs

Actual costs may depend on many things in addition to caps and granting mechanisms. Several characteristics belonging to Federal assistance programs may themselves influence the level of administrative costs. These include the number and scope of Federal requirements, the number of administrative levels, the dollar volume of programs, and the type of service that is provided.

Federal requirements

The data on requirements for the five early block grants and estimates of costs to administer them illustrate the influence of Federal requirements on administrative costs. Although the reduction of Federal requirements is a defining characteristic of block grants, the five pre-1981 block grants differed in their accountability requirements and were subject to more general Federal provisions such as civil rights requirements. Thus, the nature and extent of the specific requirements imposed under block grants may confound or mask other effects of the grant mechanism and deserve attention in their own right.

The data show that as Federal requirements increase across a block grant, grantees report that it costs more to administer the programs. Initial Federal provisions for planning, recordkeeping and reporting were greatest under CETA and least under PHA. The mean administrative cost for CETA was 17.4 percent; PHA's mean administrative cost was 9.9 percent, with case studies suggesting it might have been even lower.

Administrative costs may also be related to a change in requirement levels within any given program. Federal planning, recordkeeping, and reporting requirements for three of the five block grants tended to increase between 1975 and 1980; the increase was especially noticeable for CETA. Administrative costs also tended to increase for CDBG, CETA, and PHA for most of the period between fiscal years 1975 and 1980. Thus, the level of requirements increased, and at the same time administrative costs at State and local levels also increased.

That there may be a positive relationship between the level of Federal requirements and administrative costs is supported by data on the General Revenue Sharing (GRS) program and its administrative expenses. Federal provisions for planning, program

design, and reporting are minimal under GRS compared to the existing block grants. Administrative cost estimates for GRS grantees are also lower compared to the existing block grants. Most studies of GRS program expenditures report that the cost for financial administration at non-Federal levels in the early years of the program (fiscal years 1973-75) ranged from less than 1 percent through 14 percent. (GAO, 1975a, pp. 7-8, and 1973, p. 15; Caputo and Cole, 1976, pp. 56, 90-91) A later GRS report indicated that the average cost for general and financial administration in 1976-77 was only 5 percent of GRS program funds. (DOC/Treasury, 1979, p. 2) These reported charges to GRS administration are considerably less than the average range of 9.9 to 17.4 percent reported for block grants for fiscal years 1975 through 1980.

Caution must be exercised in interpreting these cost-related data, however, since administrative costs are not strictly comparable between General Revenue Sharing and block grants. Administrative charges reported for GRS are those of recipients' financial administrative offices, such as auditors, budget office staff, and so on. Administrative costs associated with specific functional areas were included in the cost estimates of those functions. Administrative charges reported for block grants include both central support office costs and the cost of administering specific activities.

The relationship between Federal requirements and administrative costs may depend on the type as well as the number of requirements. Reducing requirements that entail heavy paperwork burdens, such as for planning, for example, may reduce administrative expenses. Spending restrictions and monitoring provisions may help reduce costs by preventing grantees from spending block grant funds on administration unnecessarily. (Baker, 1981a) Studies of education programs indicate that charges to administration may be related to the immediacy of oversight mechanisms. That is, proportionally more Federal funds than State and local funds were spent on administration. This suggests that grantees may hesitate to use money for purposes that are hard to justify when they know these expenses will be monitored by their immediate constituencies.

The number of administrative levels

Assistance programs can be characterized by the number of intergovernmental levels that perform administrative functions. These may include all or any of the following:

--Federal agency headquarters and field offices, including regional offices or area or district offices within a State;

--regional, State, or sub-State agencies;

--county or city agencies and private nonprofit organizations;

--project operators, including entities at any State or local level that actually provide services to beneficiaries.

Our 1978 study of 70 categorical programs showed a tendency for administrative costs to increase as the number of administrative levels increases, although the data were insufficient to establish a causal relationship. Categorical programs with more than two administering levels were more costly than programs involving one or two administrative levels above that of direct service provider. (GAO, 1978d, pp. 15-16, 31)

The dollar value of programs

The proportion of funds spent on administration tends to decrease as the dollars actually spent in providing services increases. In 1978, our data revealed that programs that awarded less than $15 million to recipients had a higher percentage of administrative costs compared to programs with larger expenditure volumes. (GAO, 1978d, p. 15) The GSA study also showed that administrative costs decreased as program size increased. This may be explained by economies of scale in administration once a certain threshold of program size has been reached.

The type of service

The type of service a program provides may affect administrative costs. In our 1978 study of categorical grants, we found wide variation in administrative costs by service type. For example, conservation programs for forest management and fire control averaged 17 percent administrative costs while employment programs averaged 1.5 percent. (GAO, 1978d, p. 32) This phenomenon has been generally acknowledged among Federal and State administrators alike.

INFERENCES

Experience with fixed-percentage caps on administrative costs do not conclusively reveal whether they reduce costs. Moreover, other characteristics of the programs exert powerful influences on administrative costs but not always in the same direction. Federal requirements and the number of levels of administration are two that are related directly to block grants. To the extent that the new block grants actually lighten the burden of Federal requirements and diminish the number of levels of administration, they offer the States an opportunity to reduce administrative costs, if the States choose to use it. Increases in State requirements, however, may offset this potential for cost reduction. A third program characteristic, the program funding level, is related indirectly to block grants. Consolidation of programs with small funding levels has been linked to some administrative cost savings, but the effects of merging larger programs is unknown. All these characteristics, independent of cost caps, may potentially reduce the administrative

costs of the 1981 block grants. In addition, variability in the definition of administrative expenses may obscure the effects of any cap. It remains to be seen whether costs caps actually reduce administrative costs.

The circumstances in which the 1981 block grants were implemented may make it difficult ever to fully document the extent of administrative cost savings at the national level, however. Current HHS and HUD regulations, for example, have given grantees responsibility for determining the form and content of annual reports submitted to Federal agencies, thus leaving to the grantees' discretion whether and how to report administrative expenses. The bulk of the data on pre-1981 grants in this chapter was first reported in grantees' annual reports, and we could not have done this analysis without this information.

If reducing State and local administrative costs remains a goal of block grants, other means of affecting costs may deserve further exploration. One might be a ceiling that differs from grant to grant, the percentage to be determined by a formula that adjusts for differences in the burden imposed by Federal requirements, program size, and the number of administrative units. (It should be recognized, however, that in the absence of a standard definition of administrative cost, the nationwide effect of any statutorily imposed cost cap will be difficult to assess.) Another means might be to reduce the number of Federal requirements, recognizing that this might require a tradeoff between administrative costs and accountability to the Federal Government.

SUMMARY

Does consolidating categorical programs into block grants reduce administrative costs appreciably? Does establishing fixed percentage caps on costs? An examination of administrative costs before and after consolidation and general comparisons of administrative costs between block grants and categorical programs have revealed no conclusive evidence to support the claim that the earlier block grants led to sizable reductions in administrative costs--that is, cost saving of 10 percent or more--although they do not eliminate the possibility that some cost savings did emerge. The cost reductions that resulted from consolidating categoricals were relatively small and, in some cases, administrative costs increased after the block grants were created. In a general comparison, administrative costs for block grants fall within the range of administrative costs for categoricals--or, at least, toward the lower end of that range.

The relationship between administrative costs and the type of granting mechanism may be obscured by

--other factors,

--significant problems in the cost data, and

--inadequacies in cost data as a measure of administrative burden.

Nevertheless, the absence of a sizable reduction in administrative costs under the pre-1981 block grants is worth noting. Despite weaknesses in accounting procedures, in data collection procedures, and in methodology, the possibility is remote that these anomalies in the cost data consistently favor one granting mechanism over another and thereby distort the results of the analysis. Were these weaknesses a cause of major error, data for both mechanisms (block grants and categoricals) would be distorted in roughly the same manner, since they are not generic to a particular mechanism. Serious distortions in the individual estimates should tend to cancel out in a comparative analysis.

Our findings show that many things affect administrative costs separately. For example, the percentage costs increase with an increase in Federal requirements and in the number of administrative levels and decrease as the program's budget grows. Costs also vary with the type of service that is delivered. Each of these individual factors is at work in many of the 1981 block grants, and any of them may lead to cost reductions that were not apparent in the earlier grants. However, variations in how allowable administrative expenses are defined may obscure their effects. Costs are affected by so many variables that a fixed cap across the board may not be effective in the long run. Variable caps may deserve further consideration. Alternatively, a reduction in the number of Federal requirements might lower the administrative costs of block grants but not without a tradeoff in accountability to the Federal Government.

CHAPTER 5

WHAT EVALUATIVE INFORMATION HAS BEEN AVAILABLE TO THE CONGRESS UNDER BLOCK GRANTS?

In this chapter, we examine Federal program evaluation by the administering agencies as an accountability mechanism under each of the five original block grants. We describe the types of block grant evaluations that have been conducted and explore the variations in these evaluation efforts. We show that the block grants enacted in 1981 provide a strong role for the States, not requiring the Federal agencies to assume as active a role in evaluation as they had in the past. We draw on the experience of federally led evaluations to identify potential issues in the performance of State-led evaluations.

The scope of the term "evaluation" is so broad that we set some boundaries. Evaluation for the pre-1981 block grants includes the systematic assessment of the process, operation, or impact of the block grant programs. Our scope is nationwide in the sense that the unit of analysis or interest is each block grant. Thus, we excluded project-level evaluations. We also excluded all evaluations of block grant programs that were not at least partly sponsored by the Federal administering agency, but we have included both internally and externally conducted work. We excluded activities of inspectors general. We included agency management information systems because the capacity to track awards, services, and participants is critical for other evaluation activities.

THE EXTENT OF FEDERAL AGENCY BLOCK GRANT EVALUATION

Evaluation efforts varied widely among the five block grants. The two most extensive evaluation programs were for CDBG and CETA. Evaluation funds appropriated for CDBG have averaged about $2.6 million annually. About $11 million per year was spent for evaluating CETA and other employment and training programs. Title XX evaluation was much more modest, emphasizing support for State evaluation efforts and, therefore, outside the scope of our inquiry. Its evaluation funding dwindled over time from $1.5 million in each of the first two years to $0.5 million in fiscal year 1981, representing a minute percentage of Title XX's $2.9 billion overall budget.

LEAA had no evaluation program of the type we examined here except for the LEAA management information system and one or two other studies. LEAA made many awards for evaluations of intervention strategies (such as pretrial release projects) without regard to funding source, for evaluations at the project or State level, and for evaluations of discretionary grant programs.

We excluded these because they were not specifically evaluations of the LEAA program, were not nationwide in scope, and were not evaluations of a block grant program. 1/

The Partnership for Health Act never had an evaluation program. It supported a health reporting system but PHA funded only two evaluation studies and there was no PHA evaluation office. (ACIR, 1977c, p. 31)

MAJOR AGENCY EVALUATION ACTIVITIES

There are three broad categories of Federal evaluation activities for the block grant programs--process or management evaluations, evaluation through management information systems, and impact or effectiveness evaluations.

Process or management evaluations

Process or management evaluations have addressed a variety of block grant issues. At the most global level, CETA helped fund a comprehensive evaluation, although the primary funding came from the Ford Foundation. The final report explored the interrelationship of the various objectives and titles of CETA and examined targeting, program outcomes, program choices, and quality. (Mirengoff and Rindler, 1978) The LEAA block grant program study, funded in part by LEAA, was conducted by the Advisory Commission on Intergovernmental Relations. Like others in the ACIR series, it examined the legislative history, implementation, and funding of LEAA for 1968-75. The study emphasized the planning function as organized through mandated State planning agencies and regional planning units. ACIR used national surveys, case studies in ten States, and a review of grant applications and other data. 2/

The HUD annual reports on CDBG, while lacking the perspective of external analysis and recommendations, constitute a comprehensive review of a block grant program. Relying heavily on statistics, the reports attempt to measure progress toward national and program objectives. The reports also describe implementation and reaction to regulations and policy issues--neighborhood targeting of funds, initiation of economic development projects, and the like. Substantial descriptive information on obligations and disbursements and on program strategies and activities is provided.

In addition to evaluations with global perspectives on a block grant, there have been other evaluations with more limited objectives. A detailed study of the allocation formula for block grant funds was undertaken for CDBG as part of a long-term evaluation contract with The Brookings Institution. That analysis identified specific problems with the CDBG allocation formula after examining how the formula worked, prior allocation patterns, and changes in allocations. (Nathan, 1977) Nine alternative formulas were presented, including the "dual formula"--a calculation of allocations under two separate formulas with the actual

allocation for any given community being the larger amount. The Congress enacted the dual formula after some modification by HUD. This provides an excellent example of how block grant evaluation results can be useful to the Congress. (DeLeon and LeGates, 1978, p. 25)

CETA's long-term efforts to develop performance standards represent a unique although still untested form of management evaluation under the block grant concept. The CETA amendments of 1978 required DOL to establish performance standards for each prime sponsor. To comply, CETA has been developing quantifiable measures of performance with which to assess the 476 prime sponsors while accounting for differences in their circumstances--the characteristics of the people they serve, kinds of services they provide, and local unemployment rates. 3/ The intention is to enable the system, once it has been developed, to give rewards and sanctions, including the ultimate sanction of termination or nonrenewal of contracts. Employment and training legislation that is now pending provides for the Secretary of DOL to set performance criteria and for the States to set their own standards within the range provided by the Secretary's criteria. The pending legislation does not specify with any degree of precision what these criteria should be or how they should be applied. In a climate of minimal Federal regulation, the effectiveness of the performance standards would depend largely on the initiative of the States.

In another study of CDBG under the Brookings contract, the evaluators attempted to determine for the first two program years "What did CDBG funds enable recipient governments to do that they would not otherwise have done?" They analyzed three categories of fiscal outcome:

--stimulation--new spending for operations or capital projects;

--program maintenance--ongoing programs that without CDBG funds would have been cut back or ended; and

--substitution--the substitution of CDBG funds for money that communities would otherwise have spent on similar activities, thus enabling communities to reduce or stabilize local taxes, avoid borrowing, or increase fund balances. (Nathan, 1977, pp. 246-47)

The analysts found that stimulation and program maintenance were far more prominent fiscal outcomes than substitution. The fact that CDBG funds represent "old" money (and hence ongoing projects) in "new" form made these results plausible.

Tracing block grant expenditures to identify funds, activities, and service recipients was not always possible for PHA partly because of the small size of PHA grants relative to total Federal and State expenditures and partly because of the lack of

adequate reporting and other accountability provisions. (ACIR, 1977c, pp. 73-75) In a 1975 study of PHA and related programs, we found in one State that

> "a substantial amount of Federal funds . . . [were] allocated to specific programs by the accounting department, for administrative convenience. Some program managers, however, were not aware that Federal funds were allocated to their programs." (GAO, 1975b, p. 12)

Management information systems

Management information systems can address questions on the amount of assistance available, the number of recipients served, and the types of activities funded. LEAA had difficulty in reporting on the use of its funds. It therefore created a management information system to trace its expenditures. HUD has tabulated a sample of local applications to produce an annual report on the intended uses of CDBG funds. CETA has employed both a management information system and a more detailed sample survey system, the Continuous Longitudinal Manpower Survey, or CLMS. 4/

PHA removed the Federal controls from its minimal data collection efforts by not requiring common statistical reporting across States. The information collected in the Health Program Reporting System came from self reports by the States in such a form that services, recipient categories, and other items were uniquely defined by each State. At least initially, the data could not be meaningfully summarized nationally to describe the overall PHA program. It was not possible to give the Congress accurate information on how PHA funds were used. We discussed Title XX's management information system, called Social Services Reporting Requirements, in chapter 3.

Impact or effectiveness evaluations

Effectiveness evaluations of the CDBG and CETA block grant programs have been undertaken. The Continuous Longitudinal Manpower Survey provided the basis for an extensive effort at measuring the effectiveness of services delivered under CETA's various titles. We reported on its results in detail in our report on CETA adult services. (GAO, 1982)

CDBG is undertaking an extensive evaluation of community development strategies, concentrating on the impact of different strategies at the neighborhood level.

Block grant programs differ with respect to the technical and procedural barriers to the successful completion of effectiveness evaluations. The issue of impact or effectiveness is crucial and LEAA, for example, was weakened by its inability to document either the overall impact of Federal funds or its successful programs and strategies. (GAO, 1978a, p. 74)

EXPLAINING THE VARIATIONS IN FEDERAL EVALUATION ACTIVITY

With the possible exception of the first years of PHA, Federal agencies were authorized to evaluate the early block grant programs either under the block grant legislation or as part of general authority to evaluate agency programs. For example, the Title XX legislation provided that "The Secretary [of HHS] shall provide for the continuing evaluation of State programs." (Pub. L. No. 93-647, sec. 2006(a)) Under CETA, not only the authority but some specific responsibilities for the Secretary of DOL were delineated:

> "The Secretary shall provide for the continuing evaluation of all programs and activities conducted pursuant to this Act, including their cost in relation to their effectiveness in achieving stated goals, their impact on communities and participants, their implication for related programs, the extent to which they meet the needs of persons of various ages, and the adequacy of the mechanism for the delivery of services. In conducting the evaluations called for by this subsection, the Secretary shall compare the effectiveness of programs conducted by prime sponsors of the same class, of different classes, and shall compare the effectiveness of programs conducted by prime sponsors with similar programs carried out by the Secretary under section 110, or under title III. He shall also arrange for obtaining the opinions of participants about the strengths and weaknesses of the programs." (Pub. L. No. 93-203, sec. 313(a))

While legislative authority for evaluation may be similar across block grants, there are several factors that explain the reasons for the differing levels of Federal evaluation activity across the five block grants. First, the historical involvement of agencies in evaluation is a factor that influences the information that is available to the Congress. For example, the presence of an active evaluation unit within the administering agency at the time the block grant was enacted probably explains the relatively extensive evaluation work under CDBG and CETA. The fact that LEAA was a new program and a new agency meant that it had no existing evaluation capability at its outset. The connection to DOJ gave it few links with established evaluators since DOJ did not have the history other agencies had in administering Federal grant programs. Congressional disillusionment with LEAA's failure to use its evaluation authority actively led to 1973 and 1976 legislation mandating evaluation activities. (GAO, 1978a, pp. 64-66)

Second, the availability of funds to support Federal evaluation was sometimes a limitation. The experience of Title XX evaluation is particularly instructive in this regard. The expansion of the predecessor programs to Title XX led to the

enactment in 1972 of a cap on appropriations of $2.5 billion. In the absence of funds earmarked for evaluation, evaluative activities had to compete with other functions. Federal Title XX evaluation expenditures dropped from $1.5 million to $0.5 million by fiscal year 1981.

A third reason has to do with the agencies' view of accountability under the block grant mechanism. The ACIR study of the Partnership for Health Act documents how HEW, although experienced as an agency in program evaluation and accountability, adopted a passive mode of administering PHA that created little motivation for information, oversight, or Federal evaluation activity. According to ACIR, HEW's approach to PHA evaluation was symptomatic or illustrative of an ultimate lack of interest in the PHA program. (ACIR, 1977c, pp. 31-33)

The ability to evaluate a block grant program is fundamentally tied to an ability to identify its grantees, the amount of assistance it provides, the recipients it serves, and the activities it funds. An agency's view of its accountability function is intrinsically related to this capacity to track the program and thus, by its tracking decisions, an agency sets the limits on its ability to evaluate the program. LEAA illustrates how an increased congressional concern about accountability and, specifically, weaknesses in an agency's ability to report on uses of Federal funds can lead to the adoption of a management information system. PHA illustrates how a limited accountability function leads to an inability to track funds and a generally diminished evaluation capability.

The extent of Federal evaluation activity in block grants is intertwined with perceptions of an accountability role (or lack of such a role), the existence of a minimal data base to facilitate evaluation, an existing evaluation capability, the authority to conduct evaluations, and funding resources.

Finally, some of the differences among Federal agencies in their evaluation approaches may lie in differences in the role of States. The fact that the States had a relatively limited role in CDBG and in CETA (except in "balance of State" areas) may have strengthened the agency view that it had a role in evaluation as well as the accountability function in general. 5/

WHAT EVALUATION REQUIREMENTS HAVE BEEN IMPOSED BY THE NEW BLOCK GRANTS?

With some exceptions, the 1981 block grant legislation does not spell out the role of administering agencies in evaluation and generally places specific evaluation responsibilities on the States. Three programs have provisions describing the administering agencies' roles in any detail. 6/ The CDBG small cities grant provides that the Secretary is to conduct annual reviews to determine whether the activities of grantees are in accordance

with statutory requirements and whether the grantees have continuing capability to administer funds. The Elementary and Secondary Education provisions instruct the Secretary to offer guidance in conducting evaluations but not to issue regulations for these activities. Under the Social Services block grant provisions, the Secretary must develop and report to the Congress on criteria and mechanisms useful for the States in assessing the effectiveness and efficiency of their programs. The provisions do not state whether these criteria are to be adopted by grantees, nor does the legislation contain provisions for Federal agency evaluation that were present in Title XX.

State evaluation provisions appear in the majority of the new grants, but the language of the evaluation requirements varies considerably. At one extreme (Community Services and Low Income Home Energy Assistance), the States must monitor performance. At the other extreme (Elementary and Secondary Education), local agencies must conduct effectiveness evaluations that employ objective measures of performance and determine whether improvements in performance can be sustained over time. Many of the other grants specify that the States should conduct "effectiveness evaluations."

Two of the new health block grants (the Preventive Health and Health Services grant and the Alcohol, Drug Abuse, and Mental Health grant) are particularly noteworthy in requiring the States to use evaluation findings to determine the eligibility of public health programs and community mental health centers for funding in subsequent fiscal years. None of the earlier block grants had initially provided for the use of evaluation findings and only CETA began to develop such an arrangement.

INFERENCES

New issues may emerge as the States begin implementing their evaluation responsibilities under the 1981 Omnibus Budget Reconciliation Act. Evaluation activities are considered to be administrative costs under the Elementary and Secondary Education and under the Social Services block grants. Whenever ceilings on State administrative costs include evaluation activities, evaluation must compete for limited funds with planning, program development, and other activities. This competition, in the absence of funding from State sources, is likely to produce substantial variation in the scope and nature of evaluation activities from State to State.

When evaluations and audits are regarded as program activities, they compete with other, more established activities for increasingly limited funds. The Federal history of evaluating several block grants indicates that the scope and the cost of evaluations are likely to vary with the degree to which there are permanent evaluation units and sufficient personnel to handle the increased workloads. This will be the first experience of the States in conducting evaluations of some features of the

community services, health, and community development programs. Consequently, State evaluation costs can generally be expected to increase.

Following from the emphasis on State responsibility for evaluation is the likelihood of a diminished ability to assess the cumulative effects of block grants across the Nation. Two of the new block grants (Elementary and Secondary Education and Social Services) permit the Federal Government to offer guidelines or criteria for conducting effectiveness evaluations. None of the new grants requires uniform national standards for evaluation or data collection. It is reasonable to assume that the 1981 block grant evaluation requirements will be to direct efforts toward issues of pressing State concern. The evaluations that will result may be meaningful at the State level and may allow useful conclusions to be drawn about programs in individual States, but where the data collected by States are not comparable, building a national data base with which to assess the effectiveness of program operations will be hindered. No agency provisions are being made for the collection of comparable data across the States. Some States are cooperating in the collection of uniform data in some topical areas but it is still too early to assess this effort. Meanwhile, HUD's system for collecting data nationwide on the original CDBG program will have to be revised because of extensive changes in the application process.

Finally, views among the States of their accountability under block grants will affect evaluation efforts in a way that is independent of the questions of the comparability of data across States. The Administration's policy of devolution of responsibility to the States may generate significant differences among the States in how they define their accountability roles in the future.

SUMMARY

The Federal role in evaluating programs under the five pre-1981 block grants varied across time and across grants. CETA and CDBG had the most extensive evaluation program while funding for Title XX evaluations dwindled. LEAA undertook few studies while PHA had essentially no national evaluation activities.

CETA and CDBG conducted comprehensive management and effectiveness evaluations. There were efforts in the early block grant programs to establish comprehensive management information systems that would provide information on the uses of Federal block grant funds.

The degree of support for Federal evaluation activities differed among the five block grants for several reasons:

--the administering agencies had differing histories of involvement in program evaluation at the time the block grants were enacted.

--the amount of funds to support evaluation activities differed from agency to agency, and

--the agencies' views of their accountability under the block grant mechanism differed.

Indeed, PHA illustrates how a limited accountability function can lead to an inability to track funds and a generally diminished evaluation capability.

The new block grants are distinguishable from the old ones by their clear emphasis on placing responsibility for program evaluation at the State level. This emphasis makes it uncertain whether there will be an authoritative source of nationwide information on (1) the nature of program operations, (2) the levels and types of services available, (3) the impact of programs on the problems they are intended to help resolve.

CHAPTER 6

SUMMARY AND OBSERVATIONS

ACCOUNTABILITY REQUIREMENTS

Block grant funds are defined partly by the fact that

> "administrative, fiscal reporting, planning, and other federally imposed requirements are kept to the minimum amount necessary to ensure that national goals are being accomplished." (ACIR, 1977a, p. 6)

However, the accountability requirements differed from grant to grant among the five block grants established between 1966 and 1975. Moreover, amendments to their initial legislation increased the number and complexity of their accountability requirements. Planning requirements continually increased for all block grants except PHA and Title XX, whose planning requirements remained stable and were reduced, respectively, over the life of the grant. Reporting and auditing provisions generally increased for all five block grants.

The new block grants more consistently impose certain generic categories of accountability. A number of comparable planning, reporting, and auditing requirements appear in the legislative provisions of all nine. Some of these are requirements that emerged as the earlier grants changed. This is particularly true with regard to recordkeeping and reporting. Other planning and expenditure provisions in the older grants were not retained in the new ones. In general, the new grants are more specific in their reporting and auditing provisions and have fewer planning requirements and spending restrictions.

The tension in the earlier grants between insuring accountability and giving grantees flexibility may persist under the new block grants. The Omnibus Budget Reconciliation Act and the policy of the current Administration have sharply curtailed Federal participation in block grant administration. The Federal Government has chosen to rely more heavily on accountability mechanisms that give a retrospective view of program accomplishments than on others that might involve it more directly in program decisionmaking. Depending on how these are implemented, and depending on the scope and nature of the States' voluntary efforts to establish and maintain common reporting systems, data collected across the Nation may not be comparable. This may affect the Federal Government's ability to ascertain progress toward its national objectives, should it choose to do so.

TARGETING

CDBG, CETA, and Title XX all have the objective of focusing services on the economically needy. A review of the data suggests that they in fact targeted services to their designated

groups. Three of every four CETA participants were economically disadvantaged, at least 54-66 percent of CDBG benefits were targeted to low and moderate income people, and about 79 percent of the primary recipients of Title XX Social Services were eligible because of their low incomes. The failure to reach 100 percent targeting to the poor may indicate multiple legislative objectives rather than program deficiencies, and therefore these figures are difficult to interpret.

Another approach to studying targeting, possible despite some methodological problems with the data, was to compare CETA and CDBG to their predecessor categorical programs. Thus,

--CETA showed a slight decrease in targeting to the poor under the block grant but, in general, the characteristics of the people served were similar, and

--CDBG rehabilitation assistance showed better targeting to low and moderate income groups under the block grant in six of seven cities.

In short, there were no consistent differences between the block grants and the categorical grants in the targeting of CDBG and CETA benefits to lower income persons.

The data were examined in order to determine whether or not targeting to the poor diminished over time. Data on income targeting for CETA and CDBG suggest no such decline in benefits to the poor. In short, congressional fears that block grants would provide fewer services to the disadvantaged than categorical programs and that these services would deteriorate over time have not been realized.

With regard to targeting by race and ethnicity, there were no consistent differences between the block grants and the categorical grants.

It was possible to utilize some of the same CDBG data to illustrate the impact of the allocation formula on eventual targeting to low and moderate income groups. Data from 1979 and 1980 show that satellite cities and cities with low distress achieved less targeting of CDBG funds than central cities and high distress cities. When the law provides for targeting benefits to people with low and moderate incomes, the allocation formula it specifies will be critical in achieving targeting.

Block grants may be more compatible with the goals of social targeting than has been assumed. Targeting can provide for who is to be served by a grant while leaving to the States or local authorities the decisions about what services or activities to offer. The former allows some accountability for national objectives; the latter removes Federal influence from decisions in which local officials may have greater expertise. Articulating

and dividing responsibilities in this way may make it possible to achieve social targeting with minimum Federal activity.

Will the block grants enacted in 1981 produce similar results? Six of the nine have the objective of serving people with low incomes (among others), and three of these specify in some detail the categories of people who are to receive services. Some provisions require the continuation of previously supported projects, which will have the effect of retaining whatever targeting record the categorical programs had achieved.

A major difference between the old and the new block grants is the more prominent role of the States in 1982. States have had power in the early block grants, but primary power was held by the Federal and local governments under CETA (with some exceptions) and CDBG. The new emphasis on State authority could affect targeting, possibly producing greater variability between the States.

The new block grants contain reporting provisions, but the ability to draw conclusions at a national level about targeting requires comparable nationwide data collection. Although some voluntary efforts are under way, Federal agencies are not requiring that uniform data be collected on the 1981 block grants. In the absence of uniform data, it may be difficult to determine targeting effects on a nationwide basis under these block grants.

ADMINISTRATIVE COSTS

In this review, we found no conclusive evidence to support the claim that earlier block grant consolidations reduced administrative costs, particularly when cost savings of 10 percent or more were considered. The cost reductions from consolidating categorical programs were relatively small; in some cases, administrative costs increased. When we compared the administrative costs of three block grant programs with those of a sample of categorical grants, we found that block grant costs stood within the range of categorical costs but at the lower end.

The data do not eliminate the possibility that the earlier block grants were administratively less costly or burdensome than categoricals, but neither do they support the case persuasively. The problems that exist in the cost data--weaknesses in accounting procedures, in data collection, and in methodology--do not seem to favor one granting mechanism over another. In other words, none of the data on the pre-1981 block grants lead to the conclusion that dollar savings in administering block grants would offset a sizable budget cut in program activities, even though smaller economies might result.

Six of the nine block grants enacted in 1981 have caps on administrative costs, but the States are not precluded from using their own funds or other Federal funds for administering

the block grants. They merely set limits of 2 to 20 percent on the amount of administrative activity that can be funded with Federal block grant dollars. Our findings from the history of caps under CDBG and CETA are not instructive. Significant other changes introduced at the same time that the caps were implemented obscure the analysis of any effects the caps may have had.

The studies we reviewed did show, however, that many factors in the cost of administering block grants may affect costs separately. For example, as the number of requirements increased and as the number of levels of administration increased, the proportion of funds spent for administration also increased. The smaller programs seem to have cost more to administer. The types of service also seem to have affected administrative costs. Many of these factors are present in the 1981 block grants. Reducing certain Federal requirements (such as for planning) and consolidating small categorical programs may lead to economies not seen under the previous grants.

If the reduction of State and local administrative costs continues to be a goal of block grants, other mechanisms that affect costs may warrant further exploration. One such mechanism is a ceiling that differs from grant to grant, the various percentages to be determined by a formula that adjusts for differences in burden imposed by Federal requirements, program size, and number of administrative units.

Another approach would be to reduce the number of Federal requirements. The type of regulation being eliminated would have to be considered, since some types of Federal regulation may reduce unnecessary administrative costs while others help insure accountability. Imposing more requirements through the block grant legislation may help attain national objectives and achieve accountability, but the price may be a reduction in State and local flexibility and an increase in administrative cost.

PROGRAM EVALUATION

The Federal role in evaluating programs under the five pre-1981 block grants varied across time and across grants. CETA and CDBG had the most extensive evaluation programs while funding for Title XX evaluations dwindled. LEAA undertook few studies while PHA had essentially no national evaluation activities.

The degree of support for Federal evaluation activities differed among the five block grants for several reasons:

--the administering agencies had differing histories of involvement in program evaluation at the time the block grants were enacted,

--the amount of funds to support evaluation activities differed from agency to agency, and

--the agencies' views of their accountability under the block grant mechanism differed.

Indeed, PHA illustrates how a limited accountability function can lead to an inability to track funds and a generally diminished evaluation capability.

The new block grants are distinguishable from the old ones by their clear emphasis on placing responsibility for program evaluation at the State level. If the history of the Federal agencies under the earlier block grants can be used to predict the problems that the States will encounter, we would expect the States to differ substantially in the manner and vigor with which they pursue program evaluation. Varieties of strength in current evaluation functions and perceptions about accountability may also make for differences among them. Funding problems associated with recent cutbacks in Federal aid may sharply curtail State evaluations despite the mandate for State evaluation activities.

Tracking federally supported activities, recipients, and dollars is a major evaluation function. Whether Federal funds support activities that advance national objectives is historically of central interest to the Congress. Tracking weaknesses in the earlier block grant programs aroused congressional concern and led to the creation of management information systems and other such mechanisms. However, the changes in Federal and State responsibilities for evaluation under the new block grants may have opened a gap in the ability to assess nationally how well block grant programs achieve the national objectives that the legislation was designed to address.

Evaluation systems must be applied uniformly across the States if comparable data are to be collected and analyzed. At present, the Federal agencies are not requiring that uniform data be collected on the 1981 block grants, although voluntary efforts are under way in some areas. The availability of an authoritative future source of national information about (1) the nature of program operations, (2) the levels and types of service available, and (3) the effect of programs on the problems they are intended to address remains in doubt.

AGENCY COMMENTS AND OUR RESPONSE

Five agencies--the Office of Management and Budget and the U.S. Departments of Education, Health and Human Services, Justice, and Labor--commented on a draft of this report. A sixth agency--the U.S. Department of Housing and Urban Development--did not offer written response within the period provided for in Public Law 96-226. The agencies generally characterized the report as an informative and accurate description of experience under the five early block grants.

OMB and HHS questioned whether experience under the early block grants could be applied to the 1981 block grants, but we believe that their position overstates the devolution of responsibilities that occurred under the Omnibus Budget Reconciliation Act of 1981. We discuss this and other comments of the agencies in appendix VI, where we also reprint their letters. Where appropriate, we made the detailed changes suggested by the agencies.

APPENDIX I

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ERWIN HYTNER, STAFF DIRECTOR

April 2, 1981

Mr. Milton Socolar
Acting Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Socolar:

The Subcommittee on Oversight of the House Ways and Means Committee is currently reviewing the Administration's proposal to consolidate forty health and social services programs into four block grants-in-aid. Background information on existing block grant programs and on issues raised by the proposed consolidation would be valuable to the Subcommittee during its review. Initial discussions between my Staff Director, Erwin Hytner, and Assistant Counsel, Rusty Guritz, and staff from your Institute for Program Evaluation indicated that providing the Subcommittee with such information would be feasible.

The Subcommittee is particularly interested in identifying the issues raised by the consolidation of categorical grants into block grants, with particular emphasis on implications for program evaluation. It would be most helpful if the delineation of these issues were based on a thorough review of previous experiences with block grants and an analysis of the requirements for effective evaluation of block grant programs.

It would be most helpful if Institute members could brief my staff or me on this work pertaining to major evaluation issues and other issues and questions that have been raised about existing block grants by May 15, 1981. Subsequent work, which would extend over a longer period of time, to address issues and questions in more depth would also be helpful.

Sincerely yours,

Charles B. Rangel, Chairman
Subcommittee on Oversight

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APPENDIX II

METHODOLOGICAL DIFFERENCES IN THE STUDIES OF CDBG TARGETING

The University of Pennsylvania study differs from the others in that it examines only housing rehabilitation assistance. The Pennsylvania study was the only one of the five studies that examined actual benefits to individuals. The others examined census tract data for areas in which activities had been planned and based decision rules for allocating benefits on the income levels taken from the tracts. The Pennsylvania report examined a sample of 4,047 rehabilitated dwelling units intensively, using available data and newly collected data.

SAMPLING

Differences in sample size, types of jurisdiction, and other selection procedures may explain some of the differences among the studies. HUD used the largest sample, a stratified random sample of 151 entitlement cities. NAHRO used stratified but not random samples of 86 localities in fiscal year 1975 and 149 localities in fiscal year 1976; under these conditions, the small differences between the estimates for the two years should not be interpreted. The 4,047 rehabilitated housing units in Pennyslvania's study were located in nine cities, which in turn were selected by means of complex factor and cluster analyses. Brookings' 41 jurisdictions constituted a convenience sample that was dictated in part by their proximity to Brookings data collectors. A full sample for the Brookings study would have been 61 jurisdictions, but census tract data were not available for urban counties and nonmetropolitan jurisdictions, and this forced Brookings to eliminate them from the targeting analysis.

The sample in our 1976 study of 23 communities was selected judgmentally to provide a cross-representation of community size and geographic location in California, Louisiana, New York, and Texas. Three of the 23 communities were urban counties with less than the average 55.5 percent of benefits targeted to low and moderate income families. Two of the three had no lower-income census tracts.

TIME

In table 10, it is clear that the Brookings and the HUD studies found modestly higher levels of targeting by fiscal year 1978 than in fiscal 1975. Brookings found that the targeting increased in satellite cities rather than central cities and interpreted the cause as being the additional emphasis HUD gave to social targeting starting early in President Carter's Administration. (Dommel, 1980, pp. 164, 167)

OTHER METHODOLOGICAL ISSUES

One difference the Brookings, HUD, NAHRO, and our studies do not have is that all were based on methodologies that assigned income benefits to planned CDBG activities. To illustrate the possible weaknesses of this method, we examine the Brookings research in some detail. Brookings estimated the income benefits by determining the census tract of all approved activities within a community and imputing income benefits. Decision rules for estimating income benefits were established separately for each type of activity. Housing activities were assumed to benefit income groups proportionately to the census tract distribution. If 80 percent of the residents of a census tract had low and moderate incomes, then it was assumed that 80 percent of the CDBG housing benefits went to them. Since social service activities are intended solely for low and moderate income families, 100 percent of benefits were apparently allocated to these income groups. The process had these steps:

1. disaggregating the application initially approved by HUD into individual activities and classifying each activity into one of nine categories (housing, social services, etc.) with associated census tracts and dollar amounts;

2. allocating CDBG benefits within each activity or program category to income groups using the decision rules applied to census tract data as applicable;

3. Brookings field associates revising the allocation (if they disagreed with the decision rule) but giving specific reasons based on their knowledge of the city and its particular CDBG programs. (Dommel, 1978, pp. 158-60)

This method was creative but open to substantial error. The data were estimates of intended benefits obtained from grant applications HUD had approved, not from actual programs. Brookings pointed out that this procedure excluded later HUD adjustments, locally initiated changes, and program execution problems. (Dommel, 1978, p. 156) There are also numerous opportunities for error in associating activities with the census tracts. In addition, about one-fourth of grant funds were not allocated. The Brookings analysts assumed, however, that there was no bias and that the benefits that could not be allocated were actually distributed the same as those that were.

The decision rules constitute educated guesses about allocating that may or may not be valid. Some errors will cancel one another, but there could be a net underestimate or overestimate of benefits to people with low and moderate incomes. Another source of error is the reliance on 1970 Bureau of the

Census data in the mid-1970's. Finally, the data for 1975 and 1976 were reported originally from a simpler model and later re-estimated with the current model. It is not clear how frequently the necessary data were available for meaningful recalculation.

All the other studies but Pennsylvania's used similar methodologies. They were strictly quantitative and did not allow for field interviewers or others to override the statistical allocation of benefits. Most did not assign benefits by activity type as the Brookings study did; instead, they based decision rules solely on the income of census tracts relative to the standard metropolitan area median income.

METHODOLOGICAL ISSUES IN THE STUDIES OF ADMINISTRATIVE COSTS

Our review of research on administrative costs and our effort to develop estimates of such costs have brought to light a number of difficulties that weaken the calculation of comprehensive and reliable estimates. These include

--differing definitions of administrative activities and other accounting procedures;

--inadequacies in data collection procedures;

--weaknesses in sampling.

These difficulties generally distort the estimates rather than bias them systematically, but the distortion can mask differences between grant types, especially when those differences are small.

ACCOUNTING PROCEDURES

Constructing estimates of block grant costs has been hampered by

--the lack of a common definition of administrative cost for all grants;

--problems at State and local levels arising from the commingling of funds from different grants and a failure to report non-Federal funds spent for administration;

--the failure to measure systematically the costs to the Federal Government for grant administration.

Foremost among these is the lack of a common definition of administrative cost.

The variations in activities make it difficult to determine whether a difference in costs between programs reflects a true difference in the level of effort required to administer them. Administrative activities and how they enter into cost estimates differ considerably across the Federal assistance programs. (GAO, 1978d, pp. 10-12, 18-20) For example, some define program evaluation as an administrative activity; others define it as a program activity. Not all programs include indirect expenses (such as the general administrative costs of grantees) in their reported expenditures. Allowable expenses may change over time in any given program.

Ideally, comparisons within and across programs should be based on comparable or the same categories. The grants we discuss in this report, however, did not collect data on administrative expenditures by type of activity. In this and in our

past reports, we have thus been prevented from constructing comparable estimates from available data.

Another difficulty in developing accurate estimates stems from the fact that some budgeted charges to administration reflect an allocation of funds to administration that has been based on something other than the actual burden created by the program. The data on administrative expenses that we reported in table 14 were obtained from State and local budget documents and budget reports submitted to the administering Federal agencies. These budgeted expenditures may reflect strategic decisions to allocate funds to administration beyond the level necessary to meet the administrative burden created by the program. For example, Greenberg (1981, p. 179) found in a study of PHA that Federal funds were allocated to various activities, including administration, according to the certainty of funding, restrictions on the use of funds across grants, and a number of other criteria. Thus, a report of budgeted expenditures may be an underestimate or an overestimate of the actual cost of administering a program.

Differences in accounting procedures from grant to grant also make it difficult to isolate the uses of specific amounts of Federal assistance. In some cases, funds from various programs were pooled, or commingled, at State and local levels and the programs were administered jointly. PHA, for example, was not administered as a separate program in 48 States; its funds were merged with other revenues supporting other State and local health programs. (ACIR, 1977c, p. 45) When funds are commingled, the administrative expenses of any one program, as with PHA, must be estimated. 1/ Depending on the procedure used, estimates may overstate or understate the actual administrative burden created by the program. 2/

Finally, the accounting procedures that grantees use and the requirements imposed on them for reporting do not insure that all the funds they spend in administering the programs are systematically included in their program reports. States and localities may spend non-Federal revenues and Federal funds other than program funds to cover their administrative expenses. No provision requires them to report on these expenditures. As a result, we cannot be sure that the expenditures that have been reported include all administrative expenses or that they are accurate estimates of administrative intensity. The LEAA block grant illustrates this problem. Analyzing reported fiscal year 1976 administrative expenses, ACIR pointed to an additional 2 percent of LEAA funds and to additional money spent from State revenues over and above the 11.5 percent reported by LEAA's program office in that year. 3/

The difficulty of estimating administrative expenses at the State and local levels is compounded by the difficulties in studying Federal administrative costs. Unlike their State and

local counterparts, few of the Federal offices we contacted had kept records of the administrative costs associated with specific programs. When we asked them to estimate such costs, they generally calculated an average salary for administrative personnel and multiplied it by some estimate of staff hours. For legislation containing both block grant and categorical components, these officials were usually unable to distinguish among the administrative activities of the different grant mechanisms. Such procedures lead to varying degrees of overstatement and understatement in addition to making it difficult to compare Federal costs to costs at other levels of government.

The overall effect on our estimates seems to be mixed. Differences in definitions of allowable administrative activity may mean that our data underestimate or overestimate specific items in any given program. The analysts for each study whose data we reported in table 13 based their estimates of categorical costs on some similar categories of activity, but even so GSA, the Department of Education, and we differ with regard to some large items, including indirect costs. The estimates presented in table 14 were constructed to be comparable across grants on large categories of expense (such as for planning) but may contain other biases.

Beyond the differences in definitions, the differences in accounting practices had mixed effects on our analysis. Commingling PHA block grant funds with funds for other programs, along with vague definitions of expenses, may overstate administrative costs. The 20 percent caps on administrative costs under CETA may have led to underestimates of expenses. Inasmuch as budgeted expenditures reflect grantees' strategic decisions about resource availability, they may understate or inflate costs. In large samples such as those presented in table 14, however, these distortions are likely to cancel out.

A form of bias that appeared throughout the studies we examined was the tendency not to report all State and local expenditures for administration, meaning that estimates of costs for all grant-in-aid programs may be artifically low.

The problems we have encountered in constructing reliable estimates of administrative costs suggest that at a minimum consistent standards for reporting administrative costs would benefit all Federal grant-in-aid programs. Estimates constructed after the fact from reported data are subject to varieties of error. Without a uniform system for all types of grant in aid, the Government sacrifices an important accountability tool.

DATA COLLECTION PROCEDURES

In our review, we found two flaws that are common to data collection procedures in research on grants in aid:

--they fail to ascertain the actual administrative burden;

--they fail to validate self-reported data by examining program records or other sources.

While budget documents and other expenditure reports may reflect the allocation of funds to administration, they are not necessarily accurate indications of a program's administrative burden. Most of the estimates in table 14 were based on data obtained from the records of grantees and from reports by the administering Federal agencies. Virtually all data on the cost of administering block grants come from grantees' reports submitted through national uniform reporting systems. Grantees' budget documents and expenditure reports are also the primary sources of data on the administration of categorical grants.

Regardless of how thorough reviews of such records may have been, we can be confident only that they reflect the allocation of funds, not the actual burden of administration. Of the studies in our review, only Hannaway, researching the administrative burden of education programs, attempted to measure that burden independently of the figures reported in the budget documents and other expenditure reports. Hannaway's method involved extensive behavioral measures (such as the actual time spent in completing administrative paperwork) and independent observations of administrative activities. (Hannaway, 1976, pp. 6-7) Her method would probably place too great a burden on program officials to be widely applied, but it does highlight the fact that official records are an imperfect means of assessing administrative cost.

The other problem that commonly plagues studies of administrative costs is the failure to systematically validate self-reported data by reference to other sources. This is particularly evident in our own 1978 study and also in HUD's and Brookings' estimates of the reduction of administrative burden resulting from CDBG's consolidation of categorical programs. As with budget documents, self-reports may reflect memories of how funds were allocated to administration rather than the actual burden of administration.

Bias and error in self-reports have many causes. One is the strong influence that expectations have on responses to questionnaires. Administrators might be less likely to report a decrease in burden for a reduction that failed to live up to expectations than for one that exceeded their expectations, regardless of what actually happened. The converse is also true: if reductions in burden actually occurred, administrators who had felt particularly constrained by Federal requirements might overestimate the degree of change. Their familiarity with the paperwork requirements of the categorical programs may also have influenced their perceptions. The Brookings report on CDBG cautions that lack of familiarity with requirements for the HUD categorical programs may partly account for the belief that CDBG

paperwork was burdensome. (Dommel, 1978, p. 80) In addition, the more time that elapsed between consolidation and the interview with program administrators, the more likely it is that their comments were colored by more recent experience. Thus, HUD's findings on CDBG's second year may have been influenced by memory as much as by experience.

Using multiple methods to collect data on administrative activities would compensate for some of the biases that are inherent in any single data collection technique. However, multiple data collection techniques cost more and are therefore likely to restrict the number of sites that can be studied. There are tradeoffs between how representative administrative cost data can be and the overall quality of that data.

SAMPLING

We found two sampling issues that may have consequences for constructing estimates of administrative costs:

--the programs on which the estimates of categorical costs were based may not have been representative;

--the administrative units included in cost calculations may not have been representative.

How well a sample of programs upon which an estimate is based represents all programs influences how confidently one can generalize from the findings. While the estimates in table 13 are sound in many respects, the programs the studies examined did not represent the subject areas of categorical programs as a whole. GSA examined only five programs, and four of those were for health and welfare. 4/ The Department of Education addressed only the costs of administering education programs. Our studies were solely on health programs. However, of the categorical grants in aid currently supported by the Federal Government, more than 40 percent of the outlays are in the areas represented in these estimates--that is, health, education, and welfare.

A lack of comparability between the sample of categorical grants and the block grant programs in characteristics other than grant type also raises questions about the real size of the difference in cost between them. The more comparable that categorical programs are to block grant programs in characteristics such as services, participants, and dollar volume, the more confident we can be that estimated differences in their costs are a function of the granting mechanism and not some other aspect of the programs. The categorical programs that were used in estimating administrative costs differed from block grant programs, especially in terms of the areas they assisted. PHA's area of assistance--health and welfare--was the same, but CDBG and CETA served areas not represented in the sample of categorical

programs. This introduces the possibility that the differences that appear in the administrative cost estimates are attributable to the areas of assistance, not the grant mechanism.

The other problem of representativeness emerges in our 1978 study as well as in the GSA and the Department of Education studies. Our estimates were based on data from Federal, State, and local administrative units in only one Federal region. Our having limited the sample in this way means that the data do not account for differences in Federal administrative practices and that other factors we did not study may have affected administrative costs. Moreover, we excluded direct service providers because of difficulties in identifying administrative costs at the site of project operations. As we went on to note, excluding project operators makes it likely that these data underestimate the true level of administrative costs for categoricals and for block grants. However, there may be meaningful differences in administrative burden between block grants and categoricals at the site of project operations. If project operators did spend proportionally less to administer block grant programs than categorical programs, the greater cost of administering block grants that we reported in 1978 may inaccurately reflect differences that would have been observed had all administrative units been considered. (GAO, 1978d, p. 17)

There are similar sampling problems with the GSA and Department of Education estimates of categorical grant costs. GSA derived its estimates from samples ranging in size from 85 to 510 grant recipients, only some of which were selected by statistical sampling procedures. The estimates in Education's study were based on even smaller samples, and much of the data on local costs came from California. There is no information on how much the sample estimates of categorical costs differed from the national average for those programs.

NOTES

NOTES TO CHAPTER 1

1/Our discussion of the Elementary and Secondary Education block grant treats chapters 1 and 2 of that grant as block grants. There is some debate whether chapter 1 should be considered a block grant. We believe it bears sufficient similarity to other 1981 block grants and to our definition of block grants to do so.

2/The new consolidations are in vocational and adult education, education for the handicapped, employment and training, rehabilitation services, child welfare, rental rehabilitation, and combined welfare administration. The proposed expansions are in primary care; services for women, infants, and children; and energy and emergency assistance. (OMB, 1982, pp. 7-8)

3/Statement of Dr. Robert J. Rubin, HHS, before the Subcommittee on Intergovernmental Relations of the Senate Committee on Governmental Affairs, May 11, 1982.

4/We designed the major areas of inquiry in these interviews to find out what approaches agencies had taken in evaluating block grants; what organizational structures, resources, and mandates existed for conducting evaluations; what major evaluation activities had actually occurred; what barriers had been faced in evaluating the programs; and what uses had been made of evaluation findings.

NOTES TO CHAPTER 2

1/Conceptually, "accountability" implies a relationship: one party is accountable to another for its actions. For this relationship to be effective, there must be adequate information from the accounting party, effective oversight from the receiver of that information, and the potential for imposing sanctions on certain aspects of the accounting party's performance. (Mosher, 1979, pp. 234-35) In this broad sense, accountability can encompass such issues as fiscal responsibility, equitable treatment, the correspondence of programmatic focus and legislative intent, the quality of program management and implementation, and the effectiveness of the program. (Chelimsky, 1981, p. 109)

2/The CETA legislation provided that 1 percent of block grant funds could be spent by the States, in their capacity as prime sponsors, for the salaries of staff assigned to the State Manpower Planning Councils. Since the bulk of CETA funds was given to units of government other than the State, the contribution of this provision to reducing the financial burden of planning was minimal.

(Notes to chapter 2)

3/As in our discussion of planning requirements, these categories summarize individual requirements. It should be emphasized that, depending on the grant, these categories can and do differ in number and severity with respect to individual requirements.

4/In addition to recategorizing existing block grants, the Congress began to create new categorical grants within a given functional area outside a block grant's legislation.

5/Amendments in 1975 established a separate program for hypertension prevention, diagnosis, and treatment.

6/Personal communication from C. Boyle, LEAA, November 5, 1981.

7/This comparison does not make distinctions in categories of requirement in terms of the burden they place on grantees. For example, the requirement that grantees establish planning councils is weighted equally with the requirement that the administering Federal agencies approve plans. Moreover, each category summarizes individual requirements that differ from one another in number and severity. Hence, our comparisons across old and new grants should not necessarily be construed as being statements of the comparative burden imposed on grantees before and after 1981.

8/The reporting provisions under CDBG small cities and Title XX grants are not as extensive as under the later years of the CDBG and Title XX grants.

NOTES TO CHAPTER 3

1/Another major methodological concern has to do with assumptions that are required in analyzing the targeting data under block grants. When participants in block grants are compared with participants in the early categorical programs, it is assumed that they differ only with respect to the type of grant mechanism, but other factors, such as historical differences, may obscure the comparison. This problem may be partly overcome by comparing block grant participants with participants in contemporaneous categorical programs, but there is a disadvantage in that the categorical programs may have legislative objectives that differ from those of the block grant. Slight differences in objectives may be more significant than differences in the mechanism.

2/We were unable to obtain a copy of the National Urban League report on CDBG targeting. We excluded a Southern Regional Council report on targeting that did not present quantitative findings.

(Notes to chapter 3)

3/DOL obtains these data from prime sponsor reports following a detailed manual. We did not independently audit the data, but program officials stated that analyses indicate that the descriptive statistics are reliable.

4/Data for the CETA block grant (title I, later redesignated titles IIB and IIC) are as follows:

Characteristic	FY 1975	FY 1979	Change
AFDC and public assistance	27%	26%	-1%
Economically disadvantaged	77	71	-6
Black	39	33	-6
Unemployed	62	77	+15
Receiving Unemployment Insurance	4	5	+1
Spanish-speaking	13	n.a.	n.a.

The definition of "economically disadvantaged" changed in fiscal 1979; in this table, we use the earlier definition for both fiscal years in order to make the data comparable. Our data source here is NCEP, 1980, pp. 112-13.

5/CDBG amendments in 1977 change "low or moderate income" to "low and moderate income" to reflect the congressional intention that not all benefits go to people of moderate income. In this report, we have used the two phrases interchangeably.

6/These comparisons principally include aid under section 312 of the Housing Act of 1964 and section 115 of the urban renewal program. Section 312, originally intended for use in urban renewal areas, provides loans for rehabilitating residential properties at a 3 percent interest rate for up to 20 years. Section 115 provided grants of up to $3,500 to very low income homeowners in urban renewal areas to bring single-family dwellings up to safe and decent conditions; section 115 grants were terminated with the enactment of CDBG. Section 312 loans continued as an active program until the enactment of the Omnibus Reconciliation Act of 1981. (Gale, 1980, p. 52)

7/The University of Pennsylvania researchers assembled HUD statistics on standard metropolitan statistical area family income for each sample city and for each year. This made it possible to aggregate data from different years.

8/This comparison group also includes some programs in which CDBG funds were used to defray administrative costs or to subsidize interest rates. Thus, this is not a pure comparison group and could be more precisely, if awkwardly, called "partially or non-CDBG funded, post-1975."

(Notes to chapter 3)

9/The findings are reported in a study tentatively entitled "HUD Needs to Better Determine the Extent of Community Block Grants' Lower Income Beneficiaries."

10/See Dommel, 1982, p. 100. The HUD data are problematic because the sample of cities was changed significantly. (HUD, 1981, p. 50)

11/Gale, 1980, p. iii. The conclusion summarizes targeting on a variety of dimensions but is consistent with the income data.

12/The Brookings researchers also examined the allocation of benefits to blacks and Hispanics by analyzing "minority areas"--census tracts in which 30 percent or more of the residents were black or Hispanic in 1970. Thirty of the 41 jurisdictions had one or more minority areas. Data for these 30 cities in 1975 and 1978 show that

> "Overall, over the 4 years the minority tracts did better than the nonminority tracts . . . . In the first year, 34 percent of the tracts that were not heavily minority were allocated activities, compared with 58 percent of the heavily black tracts and 42 percent of the heavily Hispanic tracts. In the fourth year, 40 percent of the tracts that were not heavily minority received activities, compared with 77 percent of the black tracts and 69 percent of the Hispanic tracts." (Dommel, 1980, p. 175)

Although the number of tracts receiving benefits increasd between 1975 and 1978, the number of minority tracts that were assisted grew faster than other tracts. The Brookings data are difficult to interpret because about one-fourth of the jurisdictions were deleted (for not having any "minority areas") and because an area in which whites constituted up to 70 percent of the population could still be designated "minority area." The Brookings data are best at showing change, and that change shows a trend toward more activities and more dollars (except for Hispanics in 1978) in minority tracts over time.

13/An analysis of HUD data shows that 55 percent of the CDBG funds in cities that had none of the categorical programs that preceded CDBG benefited low and moderate income groups compared with 63 percent in cities that had had categorical programs. This suggests that had CDBG been limited to funding only cities that had participated in categorical programs, CDBG would show better targeting toward low and moderate incomes. The method of analysis may have exaggerated the differences. See HUD, 1980, pp. III-7, III-8.

(Notes to chapter 3)

14/It is also a weakness of the Social Services Reporting Requirements that it cannot measure either the success or the effect of Title XX services. Not surprisingly, One America found data on client outcomes to be the least quantifiable and least used. Its report was apparently a factor in the decision not to implement data collection on goal status. (One America, 1980, pp. 35-36, 44)

NOTES TO CHAPTER 4

1/As a generic term, "administrative cost" is defined as expense incurred in the general direction of an enterprise as a whole rather than within the context of specific program activities. No uniform definition pertains to block grants. Costs that are commonly but not necessarily charged to administration under block grants include salaries and benefits for program managers and general overhead (rent, office supplies, telephones, and so on). They also sometimes include activities related to planning, processing applications or plans, program monitoring, evaluation, coordinating administrative units, and giving technical assistance but not consistently across grants. Throughout this chapter, we use the percentage of Federal funds charged to administration as reported by program officials as our measure of administrative cost. Differences in recordkeeping and definitions of allowable administrative expense make it impossible to compare costs across grants item by item.

2/We did not review the effect of fixed-percentage caps on the administrative costs of categorical programs.

3/Problems we encountered with existing data include the lack of a common definition of administrative cost across programs, differences in the number and type of administrative units on which cost estimates are based, failure to consider Federal Government costs, failure to obtain representative national samples of programs, and failure to independently verify program officials' estimates of administrative costs. We discuss these issues in appendix III.

4/No fiscal year 1971 data were available for this State.

5/The Advisory Commission on Intergovernmental Relations (ACIR, 1977c) also conducted case studies in six States in the mid-1970's and found that pre- and post-consolidation data on administrative costs frequently were not available. Data on mental health costs in Texas showed a sizable decline in administrative costs after consolidation.

6/Discrepancies between these data and data reported in table 14 are the result of slight differences in the expenditure categories included in the estimates.

(Notes to chapter 4)

7/In contrast, a Brookings study reported that slightly less than 50 percent of 44 jurisdictions that had experience with HUD categorical grants reported a decrease in administrative requirements and paperwork in the first year of the program. (See Dommel, 1979, pp. 78-81.)

8/See GAO, 1978d. Our report included Federal agency costs but excluded project level costs. Including these would have affected the study's conclusion if local administration was less burdensome than for other levels of government under block grants.

9/It is not clear what specific grantee administrative costs are included in the data and whether subgrantees' costs were included.

10/Administrative cost data were available for all block grants except LEAA and Title XX. For Title XX, grantees were not required to report administrative costs in their expenditure reports. For LEAA, grantee administrative expenditure data were not available by fiscal year. Part B outlays to State planning agencies were available but these funds covered some types of expense not included in common definitions of administrative overhead, such as training and coordination of criminal justice agencies. In addition, these funds covered the administration of other programs beyond the block grants, and it was not possible to isolate the costs of administering the block grant through other sources. A national data base does exist for PHA costs, but the nature of the PHA grant makes it difficult to compare these data to CDBG and CETA data.

11/By fiscal year, these were 9.8 percent (1975), 9.2 percent (1976), 10.0 percent (1977), 13.1 percent (1978), 10.9 percent (1979), and 6.1 percent (1980) and are reported in the National Public Health Program Reporting System's 1975-80 annual reports.

NOTES TO CHAPTER 5

1/The study of intervention strategies under the national evaluation program was concerned with "specific approaches and classes of programs already operating within the criminal justice system, including but not limited to those supported under the block grant program." (DOJ, 1976, p. A-1) Because this strategy emphasized evaluating treatments rather than the programs, it is classified as a research function. State and local projects were evaluated with support by the National Institute of Law Enforcement and Criminal Justice, the evaluation and research unit of LEAA. This produced a variety of LEAA-supported studies ranging from a report on the effects of a newly enacted

(Notes to chapter 5)

gun law in Massachusetts to a report on the efficiency of an automatic vehicle monitoring system in St. Louis, Missouri. A major priority of LEAA extended outside the block grant program to evaluation of the discretionary programs.

2/Other management evaluations were funded by LEAA to study the agency's research function and information systems and statistics function. The National Academy of Sciences, assessing the research function under LEAA, concluded that the primary goal for the agency "should be developing knowledge that is useful in reducing crime" while maintaining a "concern with the fairness and effectiveness of the administration of criminal justice." (NAS, 1977, p. 7) The Research Triangle Institute assessed the information systems and statistics activities of LEAA's National Criminal Justice Information and Statistics Service. (McMullen and Ries, 1976)

3/The standards are intended to take into account local labor market conditions, local economic bases, and the needs of the eligible populations. Using data supplied by the current reporting system, the plan is to establish regression prediction equations. Predicted performance levels could then be used to negotiate a performance standard with each prime sponsor. The method has been tested with fiscal year 1980 data for 399 prime sponsors. (CETA, 1981)

4/CLMS surveys a national sample of each year's new enrollees in the major CETA programs to gather detailed information on their characteristics and employment experience before and after entering CETA. Tracking people over several years is especially critical in trying to assess the effectiveness of CETA programs. (DOL, 1980, pp. 1, 41) CETA's management information system is more timely than CLMS but provides only aggregate data on the characteristics of the enrollees of each prime sponsor and does not have individual or long-term effects.

5/States act as "balance of State" prime sponsors, covering all areas not covered by other prime sponsors.

6/HHS is required under the four health grants to report to the Congress on grantees' activities and to recommend changes in the legislation as needed. However, the legislation does not specify what type of data are to be reported. The Low Income Home Energy Assistance grant also requires annual reports. The majority of the programs enacted in 1981 provide that Federal agencies should investigate grantees' use of funds and their compliance with statutory provisions. The investigators are constrained by a prohibition on requiring grantees to provide data that are not already being collected.

NOTES TO APPENDIX III

1/See ACIR, 1977c, p. 45. Other influences on resource allocation to administrative costs are discussed in Hannaway, 1977, pp. 12-24.

2/Administrative costs for the LEAA block grant were not reported separately from the costs of administering other LEAA formula grants. All funds appropriated under part B of the grant went to support planning and administrative activities at State and local levels. Part B funds were used to administer both the block grant and related programs authorized under the Safe Streets Act and its amendments. LEAA's reports failed to differentiate between block grant-related expenses and the administrative costs of the formula grants. Since the LEAA block grant and other programs are administered jointly, it is unclear whether grantees can even distinguish among the administrative charges for the various programs.

3/The ACIR report contends that administrative costs based on part B appropriations underestimate grantees' costs in administering the program. According to ACIR, the 2 percent of program funds spent in categories outside part B to administer the block grant in fiscal 1976 is conservative and excludes additional expenditures for administration that were paid through various categories of LEAA grant funds and State revenues. Estimates of administrative costs obtained from LEAA's appropriations documents, therefore, may underestimate the actual costs of administration. (ACIR, 1977d, pp. 146-47)

4/The GSA study covered a total of five programs. Only four of the five, however, reported data on State and local administrative costs.

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AGENCY COMMENTS AND OUR RESPONSE

Five agencies responded to our request for comments on a draft of this report: the Office of Management and Budget (OMB) and the U.S. Departments of Education, Health and Human Services (HHS), Justice (DOJ), and Labor (DOL). The Department of Housing and Urban Development (HUD) did not reply within the time specified in Public Law 96-226. In our response to their comments, we first address the major comments common to the four agencies, comparing their perspectives when possible. We then deal with the comments unique to each agency. The letters are reprinted following our response, beginning on page 110.

MAJOR COMMENTS

The agencies generally characterized the report as an informative and accurate description of the experience of the five original block grant programs. There are three major areas in which they disagree.

In the first, OMB maintains that our findings and conclusions as based upon past block grants are in many respects not relevant to the block grants enacted in 1981. The new block grants, OMB argues, shift program accountability to the States, making the States "accountable to their own citizens, rather than to Federal officials" (page 111). Because the States are closer to the people who pay taxes and are as competent and concerned as the Federal Government regarding the use of public funding, it is appropriate to vest responsibility and accountability for funds with the States. HHS raises a similar argument, noting that the 1981 legislation is unique, partly because it transfers "programmatic and financial decision-making authority to the States" (page 116). In contrast, DOJ believes "that the LEAA block grant experience provides a data base for obtaining some valuable information and offering some worthwhile lessons" (page 118).

Our response. We note the assumptions involved in drawing upon past experience on page 13 of the report and elsewhere within it. If one accepts OMB's model of accountability, it follows that there would be, to quote OMB, "far less need for extensive Federal data collection, monitoring and evaluation systems" (page 112). Similarly, the historic tension between insuring accountability to the Federal Government and maximizing grantees' flexibility, discussed in chapter 2, is not a concern under OMB's accountability model.

We are not endorsing any one accountability model, but the Congress clearly established a Federal oversight role in the 1981 block grants. As we have noted in chapter 2, the new block grants tend to impose the same generic categories of accountability requirements as were imposed under the earlier block grants. In fact, we found that some of the accountability requirements that emerged over time in the earlier grants have been imposed at the outset for the new. We further conclude, in chapter 2, that the

new grants are characterized by greater specificity in reporting and auditing provisions and by fewer planning and spending requirements than the earlier grants. In short, the model of accountability implicit in the Omnibus Budget Reconciliation Act of 1981 provides Federal oversight rather than virtually abolishing that role in the way that OMB suggests.

We believe that the fundamental issue of block grants remains the relative power of the States and the Federal Government and the associated conflict between maximizing State (or local) flexibility and achieving national objectives. We agree that transferring more power to the States increases accountability for expenditure decisions by State governments. However, monitoring the expenditure of block grant funds to achieve stated national objectives--a theme that underlies our analysis in chapters 2, 3, and 5--has been and is a central Federal oversight responsibility under past and current block grant legislation. The argument that OMB has made may be more appropriate in the context of general revenue sharing, where many uses of Federal funds are authorized and only a small Federal role in insuring the appropriateness of expenditures has been provided for.

In the second, OMB disputes our analysis of evaluation data needs, stating that, with the shift of accountability to the States, "the Administration believes there is far less need for extensive Federal data collection, monitoring and evaluation systems" (page 112). In contrast, DOL favors a "less explicit role in program evaluation for Federal agencies" (page 123) but states that "there must be basic overall standards established to evaluate outcomes" (page 122). DOL goes on to suggest that federally established performance standards will provide a basis for evaluating employment and training services in the future. Similarly, DOJ observes that the "LEAA experience points out the critical need for the collection of basic, national data that show how public funds have been spent, for what activities, and with what result" (page 118). DOJ suggests that the "success of LEAA in developing a relatively simple management information system with the voluntary cooperation of the States might be a useful model for the new block grant programs" (DOJ's emphasis, page 119).

Our response. We have not argued that there should be more--or even as much--Federal evaluation now than there was under the earlier block grants. Rather, we point out that certain information--such as what activities were funded, whether targeting of aid to the poor occurred, and what effect the services had--is not likely to be available on a nationwide basis without Federal leadership. Nationwide data provide the Congress with fundamental information that it needs for assessing block grant performance.

Although cooperation by the States in the LEAA management information system was voluntary, the system itself was developed and managed by the Federal Government. This approach differs markedly from some current proposals that rely on the States

working together to maintain or develop reporting systems for some of the new block grant programs.

In the third, OMB asserts that our discussion in chapter 4 of administrative cost savings for the early block grants is misleading because we conclude that negligible savings occurred. The agency contends that the data allow no conclusion to be drawn. OMB also argues that the past has relatively little bearing on the new block grants. While OMB implies that administrative costs will be lower, HHS cautions that it is the States' responsibility to achieve these cost savings and that this will take time.

Our response. In the report, we have in fact stated that some cost savings may have emerged under the earlier grants but that there was no evidence of a sizable decline in costs--that is, a reduction of greater than 10 percent. (See pages 58 and 59.) To conclude either that no cost savings occurred or that large savings were achieved would be indefensible in light of the data we have presented, for reasons we have noted in the chapter. We also note in the chapter that where the new block grants actually reduce burdensome requirements and the levels of administration, they offer States the opportunity to reduce administrative costs. How the States will exercise this opportunity remains to be seen.

FURTHER COMMENTS

The Department of Education

The Department of Education questions whether chapter 1 of the Education Consolidation and Improvement Act of 1981 should be incorporated into our discussion of the 1981 block grants. We have treated chapter 1 as a block grant for several reasons. First, the Omnibus Budget Reconciliation Act uses the label "block grant" for both chapters 1 and 2. Second, chapter 1 has structural similarities to some of the other 1981 block grants. Third, it conforms to the definition of block grants we present on page 2 of our report: it funds a wide range of activities within a broad functional area, gives grantees flexibility in program design, contains a minimum of accountability requirements, and statutorily limits the administering agency's discretion in distributing funds. In response to the Department of Education's comments, we have added a note to this effect at the appropriate point in the text.

The Department of Education also questions the specificity of the entries in table 6. As we noted in the draft, the table summarizes provisions that differ in number and severity. In some cases, certain provisions are implicit in or logically follow from other provisions. Table 6 is intended as a guide to the presence or absence of general accountability provisions in the legislation. As in any summary, it is not possible to note all the qualifications that apply to each program being discussed. We believe that the table accurately summarizes all the accountability provisions relevant to the Elementary and Secondary Education block grant.

We have made changes either in the text or in notes to address the agency's other comments, with one exception. The Department of Education indicates that the cost of evaluating the Elementary and Secondary Education block grant would be lower than the cost of evaluating the categorical grants consolidated in the block grant. In the paragraph to which the Department refers, we did not discuss--and the paragraph does not apply to--education programs.

The Department of Health and Human Services

HHS questions whether our discussion of the stability of block grants on page 9 is applicable to the current situation and whether our conclusion is correct for the original block grants. HHS also points out that changes in block grants over time are to a large extent congressionally controlled. We have already discussed the issue of the applicability of the early block grant in this appendix. We believe the short histories we have presented in chapter 1 and our descriptions of changes in accountability in chapter 2 demonstrate the instability of block grants. We agree that the Congress has a major effect on the molding of changes in block grants.

HHS also suggests that Title XX was similar to a block grant but not strictly speaking a block grant program. We have classified Title XX as a block grant following the practice of ACIR and other researchers. As we have noted on pages 1 and 2, the dividing line between block grants and categorical grants can be clearer in the abstract than in the implementation.

HHS notes that we do not incorporate the State perspectives on evaluation; to have done so would have been beyond the scope of our study, as we indicate in chapter 1.

HHS also suggests that in our chapter on accountability we should have discussed the criminal prosecution provisions of the 1981 block grants. The accountability mechanisms we discuss in the chapter apply to grantees, not to individuals, and including the provisions HHS mentions would therefore have been somewhat misleading. We agree, however, that the provisions are an important step in planning for the control of fraud and abuse in these new block grants.

The Department of Justice

DOJ suggests other issues for study related to block grants, additional details on LEAA's difficulty in reporting to the Congress, and additional factors that contributed to LEAA's vulnerability. All these were beyond the scope of our inquiry.

We made all the specific changes to chapter 2 that DOJ recommends with one exception. We believe that our statement concerning

the 1979 Justice Improvement Act was accurate and did not need elaboration.

The Department of Labor

We have no additional points to make.

The Office of Management and Budget

We received additional oral comments after the specified comment period and have responded to the more technical of them. We have not responded to the remainder of them here, however, because to have done so would have delayed publication of this report without improving its accuracy in any significant way.

In the pages that follow, we reprint the letters from the agencies that we have discussed above. The righthand margins contain translations of chapter, page, and table numbers from the draft the agencies read to their equivalents in this final version.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 4 1982

Mr. William J. Anderson
Director, General Government Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Anderson:

This responds to your July 2, 1982 letter to Director David A. Stockman, requesting comments on the proposed report to the Congress entitled, "Lessons Learned From Past Block Grants: Implications for Congressional Oversight."

In general, while the report is informative, its usefulness is affected by the marked differences in objective, structure and operations between the block grants studied for this report and the block grants enacted by the Omnibus Budget Reconciliation Act of 1981. As a result, many of the findings are dated and, as the report states, largely inconclusive.

More specifically, it is not clear whether the study took into account such factors as:

- The block grants enacted in 1981 vest primary responsibility with the states and, as a result, the extent of discretion and responsibility the states are given is far greater than was given grantees under the programs discussed in the report.

- The shifting of discretion and responsibility to the states, has been accompanied by a shifting of the program accountability to the states, primarily because:

  -- responsibility and accountability for funds should be vested in the same governmental unit (in this case, the states);

  -- states are as competent and concerned as the Federal Government regarding the use of public funds, which means maintaining extensive accountability to the Federal Government is unnecessary; and

  -- states are closer to the people who pay taxes for and receive benefits from the block grants and, therefore, are more easily held accountable than the Federal Government.

- The administrative and managerial competence of state governments has improved markedly since the earlier programs which the report discusses, and thus the states are able to accept the increased responsibility.

The following are specific areas where we found that basing findings and conclusions upon past block grants is not entirely relevant to the new block grants.

- Chapter II suggests that the Federal Government will have to find a substitute for direct involvement in program decisionmaking and administration in order to maintain accountability. This ignores that the new block grants have been developed on the already-stated premise that accountability decreases the further the government gets from the people. ch. 2

- Chapter II also discusses the changing pattern in accountability provisions over time for the earlier block grants, and implications of those experiences with the current accountability features of the 1981 block grants. The report suggests on p. II-28 that "the tension between ensuring accountability to the Federal Government and maximizing grantee flexibility reflected in the earlier grants may persist under the new." p. 33

  The discussion surrounding this point does not adequately reflect two essential points. First, the new block grants have been designed to shift accountability for the administration of programs from the Federal Government to the states, and the requirements imposed upon the states are designed to assure that states are accountable to their own citizens, rather than to Federal officials, for the proper and effective use of the block grant funds. Second, because the administrative capability of states has improved in recent years, the ability of states to effectively assume these responsibilities is enhanced, and thus concern over states' accountability is lessened commensurately.

- The discussion in Chapter IV regarding potential administrative cost savings is somewhat misleading. First, the report correctly notes that the data available for the earlier block grants do not show any administrative cost savings, but then proceeds to conclude that the administrative cost savings probably were negligible. I believe that this is an indefensible conclusion, and that the only realistic conclusion is that no conclusion can be drawn based on the previous block grants. ch. 4

  More significant, the report does not make clear that the experiences of the earlier block grants have relatively little bearing on likely experiences under the new block grants, due to the fact that (1) the number and scope of Federal requirements and the number of administrative

APPENDIX VI

levels--two factors cited in the report as affecting administrative cost savings -- are considerably less, and (2) the Federal oversight will be greatly reduced.

- In Chapter V, the report discusses the experience with earlier blocks in terms of the possible need for more extensive Federal evaluative information on the new block grants. Since primary responsibility and accountability have been shifted to the states, the Administration believes there is far less need for extensive Federal data collection, monitoring and evaluation systems. These functions are best left to the states which are primarily responsible for the new programs. ch. 5

We have identified a number of specific and detailed factual issues and questions. These have been communicated to your staff orally.

I appreciate the opportunity to review and comment on the report.

Sincerely,

Harold I. Steinberg
Associate Director
for Management

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE ASSISTANT SECRETARY
FOR ELEMENTARY AND SECONDARY EDUCATION

23 JUL 1982

Mr. Gregory J. Ahart
Director
Human Resources Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Lessons Learned from Past Block Grants." Following are my comments according to the sequence of the report:

Table I-2 Structural and Fiscal Characteristics of 1981 Block Grants — table 2

The authorization in millions for the Elementary and Secondary Education Block Grant is $589.4 for fiscal years 1982-84. The appropriation for FY 1982 is $470.4

Table II-4 Grantee Planning, Programmatic, Reporting, and Audit Requirements in the Omnibus Reconciliation Act for Nine Block Grants — table 6

We question the accuracy of the entries relating to the Elementary and Secondary Education Block Grant. There is a requirement for a comprehensive plan, needs assessment, and performance standards for Subchapter A activities, but this does not apply to all funded activities. The activities supportable under Chapter 2 are so broad we cannot understand why there is an indication that there is a limit. Also, while target populations are identified, there is no requirement that the funds be used for those populations. The ceiling on expenditures is limited to the funds reserved for State use. With respect to the reporting requirements, there is not the specificity which is indicated by the entries.

Page III-24. There is a reference to Chapter 1. While included as a part of Subtitle D - Elementary and Secondary Education Block Grant, Chapter 1 does not appear to fall within the scope of the definition of block grants used in this study. Also, the authorization levels shown in Table I-2 did not include Chapter 1. — p. 48, table 2

Page III-25. Chapter 2 of the Education Consolidation and Improvement Act requires the State to distribute at least 80% of the funds it receives to local educational agencies based on relative enrollments in elementary and secondary public and private schools, adjusted to provide additional amounts for children whose education imposes a higher than average cost. However, there is no requirement that the additional funds a local educational agency receives be used for the children which generated the additional amounts. The statute specifically provides that local educational agencies have complete discretion as to how the funds will be used. — p. 49

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Page IV-2. The 20 per cent of the Education Block Grant which States may reserve for their own uses is not intended solely for administrative costs, although a State could use the entire amount for that purpose. (Page IV-15 same comment). — table 15, p. 59

Page V-11. Under the Education Block Grant, the Secretary is authorized to provide guidance in conducting evaluation only when requested to do so, and is expressly prohibited from issuing regulations regarding the evaluation. — p. 72

Page V-12. There again are references to Chapter 1 (footnote 24). Chapter 2 does not require evaluations that employ objective measures of performance and a determination whether improvements can be sustained over time. — footnote deleted

Page V-13. In the first paragraph, the report indicates that State evaluation costs can be expected to increase as a result of the 1981 block grants. With respect to the Education Block Grant, this may not be true. The evaluation requirements of some of the antecedent categorical programs were much more extensive than those in the block. Also, because the per pupil amounts received under the block grant are relatively small, States may decide to restrict evaluation activities to preserve the funds for educational programs. — p. 72 par. 5

Page V-13. In the second paragraph, it should be noted that Chapter 2 does not "require" the Secretary to provide guidelines or criteria to be used in conducting effectiveness evaluations. The language is permissive. — p. 73 par. 1

We found the report very helpful and will take the findings into consideration as we work with colleagues in the field of education to move toward a successful implementation of the block grant concept. Thank you for giving me this opportunity to comment. I hope my comments are helpful to you.

Sincerely,

Maria Edwards Hansen for

D. Jean Benish
Acting Assistant Secretary for
Elementary and Secondary Education

APPENDIX VI

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

AUG 13 1982

Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft of a proposed report "Lessons Learned from Past Block Grants: Implications for Congressional Oversight." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Richard P. Kusserow
Inspector General

Enclosure

Department of Health and Human Services Comments on Draft of a Proposed GAO Report, "Lessons Learned from Past Block Grants: Implications for Congressional Oversight"

General Comments

- The report presents a good historical summary of past block grants, and we agree with some of the observations and conclusions. We suggest that the usefulness of the report is limited, however, primarily to historical description. It is inappropriate to draw conclusions, as GAO does, about the current block grants based on findings about the previous block grant programs, since the two sets of block grants are fundamentally different. The past block grants did not do much more than consolidate categorical programs. The current block grants, created under the Omnibus Budget Reconciliation Act of 1981, go well beyond that in transferring programmatic and financial decision-making authority to the States. They also decrease budgets for the programs (not increase budgets as in past blocks) partly on the assumption that a reduced Federal role cuts State administrative costs. Furthermore, current economic and political circumstances are substantially different from those at the time the past block grants were implemented.

- Since the initiation of the programs that were the focus of the GAO study, public and Congressional perceptions of appropriate funding mechanisms have changed. It is questionable whether the report's assessments of the limitations of the stability of block grant mechanisms are applicable to the current situation. This qualifying point is stated in the report, but should be one of the first things said.

  We disagree with the report's inference, raised on page ii, that the blocks are not stable funding mechanisms because they have been merged with other blocks or reconstituted as blocks. Only LEAA has been abolished—the rest remain essentially in block form. Citing the modification of Title XX to the Social Services block grant as an indication of the lack of stability of the block grant mechanism is inappropriate: the 1981 changes enhanced the flexibility and block grant characteristics of Title XX. GAO also fails to make the point that funding for some of these blocks did not grow. p. i

  The report should make clearer that the changes to the blocks over time (in terms of flexibility) are, to a large extent, in the hands of Congress. Continued Congressional support for the block grant mechanism is the key to its viability.

- We suggest that some qualifying language be added to the discussion of Title XX in the Introduction section to the effect that the Title XX program, although not strictly speaking a block grant program, is included in this report because it is similar to earlier block grant programs and shares some of the same characteristics. pp. 8-9

- An important point is lost in the discussion of administrative costs: the reduction in Federal requirements and the increase in flexibility allowed States in designing program and administrative systems provide States with the opportunity to reduce administrative costs. Taking advantage of this opportunity is up to the State and it will take time for States to make beneficial adjustments. However, as GAO points out, there are, and will continue to be, substantial problems in measuring these savings.

- While the report draws on a variety of evaluation reports and interviews with Federal officials, it does not incorporate State perspectives. State experiences and viewpoints are particularly relevant to any discussion of the issues of balancing flexibility and accountability, and reducing administrative costs.

- Chapter II of the report, dealing with accountability for Federal funds, fails to mention the criminal prosecution sanction provisions that were written into legislation for CETA, LEAA, and the four 1981 health care blocks grants. (Sanctions were included in the original CSA legislation, but not the 1981 block grant.) These provisions facilitate investigation of criminal misuse of Federal funds (e.g., embezzlement) by not requiring that the Federal "character" of funds involved first be established--a difficult task when funds are commingled. We suggest that GAO discuss the impact of each of these provisions on law enforcement efforts. ch. 2

U.S. Department of Justice

Washington, D.C. 20530

JUL 27 1982

Mr. William J. Anderson
Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This letter is in response to your request to the Attorney General for the comments of the Department of Justice (Department) on your draft report entitled "Lessons Learned from Past Block Grants: Implications for Congressional Oversight."

The two-week turnaround time for response to this draft report precluded a thorough review and comment by the Department. Nevertheless, we are taking this opportunity to offer some general observations insofar as the report pertains to the Law Enforcement Assistance Administration (LEAA) block grant program.

First, we believe that the LEAA block grant experience provides a data base for obtaining some valuable information and offering some worthwhile lessons. However, the program would have to be examined more closely and extensively than is allowed within the framework of this particular General Accounting Office (GAO) report. Among the issues the LEAA experience illustrates, which are also issues that are likely to surface in future block grants as well, include (1) the utility of block grant mechanisms in meeting objectives of reform and innovation, (2) the encroachment of "red tape" at both the Federal and State levels, (3) the significance of intergovernmental roles in decision-making and fund allocations, (4) the varying administrative capabilities at State and local levels, (5) the balance between recipient flexibility and the need for accountability, (6) the pressures for recategorization, and (7) the need to measure progress in meeting statutory objectives.

GAO observes that the new block grants have refrained from establishing uniform performance reporting systems and suggests that, as a result, the types of data regularly available may not be sufficient to make nationwide assessments. The LEAA experience points out the critical need for the collection of basic, national data that show how public funds have been spent, for what activities, and with what result. LEAA's difficulty in reporting to the Congress and the general public on the uses of its funds played a significant role in its eventual demise. With the cooperation of the States, LEAA was able to install a reporting system, but it was both too late and too short on performance information to respond to growing Congressional criticism. The 1979 reauthorization of LEAA (the Justice System Improvement Act) reflected Congressional concern that there be timely and complete reporting on performance and impact by requiring, in addition to an annual report, a report every three years

describing in detail progress towards meeting certain statutorily-specified objectives. Although the GAO report refers to this aspect of the LEAA experience on pages V-6 and V-10, the point is so pertinent that it merits more complete treatment. Furthermore, the success of LEAA in developing a relatively simple management information system with the voluntary cooperation of the States might be a useful model for the new block grant programs. p. 69 p. 71

Page I-9 of the draft report attributes LEAA vulnerability to lack of a united constituency, intergovernmental rivalries, and high crime rates. However, other factors also played a major part including: the inability to document results, unwise and frivolous uses of block monies, growing administrative complexity and red tape, changing and unclear statutory purposes, and lack of targeting of funds on effective improvement programs. With specific regard to the latter point, the Attorney General's Task Force on Violent Crime concluded that the LEAA program had scattered funds thinly over a wide variety of programs, some of which were of dubious merit. The Task Force went on to recommend that future financial assistance be focused on priority programs of demonstrated worth. In essence, it found that one of the major lessons of LEAA was that grantee discretion had to be balanced with the need to target increasingly limited funds on effective improvement programs. The GAO draft report seems to overlook this issue. p. 6

The following minor points are brought to your attention:

--Page II-4 contains a confusing and perhaps misleading paragraph on LEAA planning funds. LEAA legislation did indeed ease the financial burden on recipients of planning and administrative costs by providing for Part B planning grants. Most of the planning funds were for State administrative costs, although at least 40 percent was to be passed through to local units or combinations. p. 18

--Page II-12 states that recategorization of the LEAA block grant culminated with the Justice System Improvement Act (JSIA). This is an oversimplification. The JSIA, in fact, eliminated separate block grants for planning and correctional purposes and folded them into a general block grant for criminal justice improvements. p. 23

Page II-13 (first paragraph) gives an impression that there was a cause and effect relationship between program restrictions and the addition of corrections and juvenile justice block grants, to a decline in LEAA appropriations. There is no reference source cited for this statement and, in our judgment, it is unsubstantiated. As noted earlier in the report, LEAA's problems were much more numerous and complex than is suggested here. In fact, the agency's budget continued on an upward cycle after the Part E amendments of 1971 and the enactment of the juvenile justice program in 1974. deleted

--Page II-17 cites 1975 LEAA guidelines requiring recipients to report on program activities semi-annually. We have been unable to verify from our records the existence of any such requirement. Furthermore, the 1975 guidelines cited were clearly not, as the report states, the initial LEAA regulations. By 1975 the program had been operating six years. deleted

The Department appreciates the opportunity to comment on the draft report. Should you desire any additional information, please feel free to contact me.

Sincerely,

Kevin D. Rooney
Assistant Attorney General
for Administration

APPENDIX VI

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

AUG 17 1982

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your letter to Secretary Donovan requesting comments on the draft GAO report entitled, "Lessons Learned from Past Block Grants: Implications for Congressional Oversight." The Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,

ALBERT ANGRISANI
Assistant Secretary of Labor

Enclosure

U. S. Department of Labor's Response to Draft General Accounting Office Report Entitled -- "Lessons Learned from Past Block Grants: Implication for Congressional Oversight"

The Department has reviewed the draft report entitled, "Lessons Learned from Past Block Grants: Implications for Congressional Oversight" and offers the following comments on the issues discussed in the report.

How Has Block Grant Legislation Balanced Competing Goals of Flexibility and Accountability?

The Department feels that the findings pertaining to this issue are consistent with the purposes of a block grant. Block grants were created to reduce restrictions on local program operators and GAO finds that this has in fact occurred, in particular in the planning and spending areas.

With respect to the accountability issue, in particular, performance standards, it is the Department's position that there must be basic overall standards established to evaluate outcomes. These standards would focus on program results and not on process and would provide a sufficient base for assessment of overall results.

Have There Been Savings in Administrative Costs Under Block Grants?

The Department feels that the finding that there was no consistent change in administrative costs is primarily the result of the multitude of administrative requirements contained in the Department's block grant. We note that GAO indicates that reductions in Federal requirements may result in administrative economies not previously seen.

The Department feels that the block grant approach for employment and training which is currently being considered will, in fact, provide for significant reductions in Federal requirements and that these reductions in requirements along with the actual limitation on administrative expenditures established by legislation will produce significant administrative savings.

Have the Poor and Other Disadvantaged Groups Been Served Equally Under Block Grants and Categorical Programs?

The finding that there were no consistent differences between categorical programs and block grants in targeting

benefits to lower income individuals or to minority groups again supports the Department's position with respect to block grants.

The Department feels that any other results with respect to this issue in the employment and training area would mean that programs were not being operated in accordance with the intent of the legislation.

What Has Been the Nature and Extent of Evaluative Information Available to the Congress Under Block Grants?

The Department feels that the findings on this are consistent with the intent of the block grant approach. In particular, the less explicit role in program evaluation for Federal agencies.

The Department does not feel that this approach will result in less effective service to eligible clientele. The performance standards, which will be Federally established, will provide a basis for evaluating the system.

In addition, the Department will be carrying out specific evaluations of the cost-effectiveness of the program in achieving the purposes of the Act, the impact of the programs on communities and participants, the extent to which the programs meet the needs of the individuals by age, race, sex, and national origin and the adequacy of the overall delivery system. All of the information obtained through such evaluations will be provided to Congress.

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